OGC

Oil and Gas Commission

Annual Service Plan Report

2006/2007

BRITISH COLUMBIA
The Best Place on Earth

OGC

Library and Archives Canada Cataloguing in Publication Data
British Columbia. Oil and Gas Commission.
Annual Service Plan Report. - - 2006/07 -

Annual.
Report year ends Mar. 31.
Continues: = British Columbia. Oil and Gas Commission.
Annual Report, ISSN 1488-4380.
ISSN 1712-8366 = Annual Service Plan Report - - British Columbia.
Oil and Gas Commission

1. British Columbia. Oil and Gas Commission – Periodicals. 2. Petroleum industry and trade – Government policy – British Columbia – Periodicals. 3. Gas industry – Government policy – British Columbia – Periodicals. I. Title. II. Title: Oil and Gas Commission Annual Service Plan Report

HD9574.C33B74 354.4'5'0971105 C2005-960011-X

2007-05794/

OGC

Message from the Chair to the Minister of Energy, Mines and Petroleum Resources

Dear Honourable Minister Neufeld:

I am pleased to present the Oil and Gas Commission Annual Service Plan Report for 2006/2007.

Fiscal 2006/07 bear witness to one of the most exciting yet challenging years faced by the Oil and Gas Commission. At year end, we find ourselves looking back at a number of exceptional accomplishments that combine to create a solid foundation for our future.

The Commission has made significant progress in achieving its planned corporate strategies and performance targets despite an extremely aggressive agenda. The 2006/07 fiscal year saw an already busy Commission motivated by new and renewed partnerships and continuous organizational improvement.

New Memorandums of Understanding (MOU) with Treaty 8 First Nations mark a significant achievement in meeting the needs of First Nations, government and industry. A new MOU was also struck with the Federal Department of Fisheries and Oceans, designed to enhance fish habitat protection as it relates to oil and gas development.

Effort to deliver FrontCounter BC service to north east British Columbia resulted in a partnership with the Integrated Land Management Bureau (ILMB). Effective April 1, 2007, the Fort St. John office of FrontCounter British Columbia opened as a one-stop government service provider jointly administered by ILMB and the Commission, with the Commission taking the lead in day-to-day management.

Important operational priorities continue, such as the pipeline data and risk management projects, while performance management and a financial system upgrade were brought into effect.

The Commission has developed a framework to manage risks associated with key business processes, which will be integrated into the Commission's operational planning process going forward.

To better compete in a unique and highly competitive labour market the Commission was exempted from the *Public Service Act*. This will provide the Commission greater flexibility in designing measures aimed at enhancing its work environment and improve recruitment and retention.

The past fiscal also saw legislation passed in 2005/06 being brought into force on April 1, 2006 to create the Orphan Sites Reclamation Fund. The fund is administered by the Commission, and is intended to pay for the reclamation of orphan sites and related costs.

OGC

For the first time, the Commission is reporting its financial position on a consolidated basis including both the Commission and the Orphan Sites Reclamation Fund.

On a non-consolidated basis, the Commission budgeted for a balanced budget and achieved net revenues of $2.78M for the fiscal year. The $1.52M surplus (after capital spending) is primarily due to timing differences between last year and this year. The Commission expects that these planned expenditures will still take place early and throughout 2007/2008. The Orphan Sites Reclamation Fund accumulated just over $1M thereby boosting the Commission's net revenue to $3.84M on a consolidated basis.

The Board has assessed these results and is satisfied with the organizational performance. The Board is confident that the Commission is positioned to regulate industry activity in a timely and professional manner, to improve service delivery to clients, and to meet statutory obligations under the *Oil and Gas Commission Act*.

The 2006/07 Oil and Gas Commission Annual Service Plan Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of the Crown agency for the 12 months ended March 31, 2007. All significant decisions, events and identified risks, as of June 29, 2007, have been considered in the preparation of this report.

The information presented is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our actual performance in relation to our Service Plan. The measures presented are consistent with the Oil and Gas Commission's mission, goals and objectives, and focus on aspects critical to the organization's performance.

I am responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

Greg Reimer, Chair
Oil and Gas Commission

Table of Contents

Organization Overview	.....	1
Performance Report	.....	6
Financial Report	.....	14
Corporate Governance	.....	47
Appendices	.....	50
Contact Information	.....	62

Organization Overview

The Oil and Gas Commission (OGC) is an independent single-window regulatory agency with responsibilities for overseeing oil and gas operations including exploration, development, pipeline transportation, and reclamation.

Created as a Crown Corporation through the enactment of the *Oil and Gas Commission Act*, this regulatory model was designed to provide a streamlined and efficient one-stop regulatory agency.

The regulatory responsibility of the OGC extends from the exploration and development phases, through to facilities operation and ultimately decommissioning. It is charged with balancing a broad range of environmental, economic and social considerations. As a Crown Corporation, the OGC's accountabilities extend to affected communities, First Nations, client companies and their representative associations. Among its more specific objectives are public safety, conservation of petroleum resources, fostering a healthy environment, and ensuring equitable participation in production.

Our Vision is:

To be the innovative regulatory leader, respected by stakeholders, First Nations and clients.

Our Mission is:

To regulate oil and gas activity:

- *through fair, consistent, responsible and transparent stakeholder engagement;*
- *for the benefit of British Columbians; and*
- *by balancing environmental, economic and social outcomes.*

Our Core Values are:

- *We are truthful and do our duty above all else in the performance of our responsibilities.*
- *We continually strive to strengthen relationships with our stakeholders,*
- *First Nations, clients, and co-workers by being open and demonstrating integrity.*
- *We are accountable through our service plan.*
- *We are flexible, innovative, and proactive.*
- *We are socially and environmentally responsible.*
- *We will measure our performance and strive for excellence.*
- *We embrace change that enables personal and organizational growth.*
- *We promote a positive and rewarding work environment.*

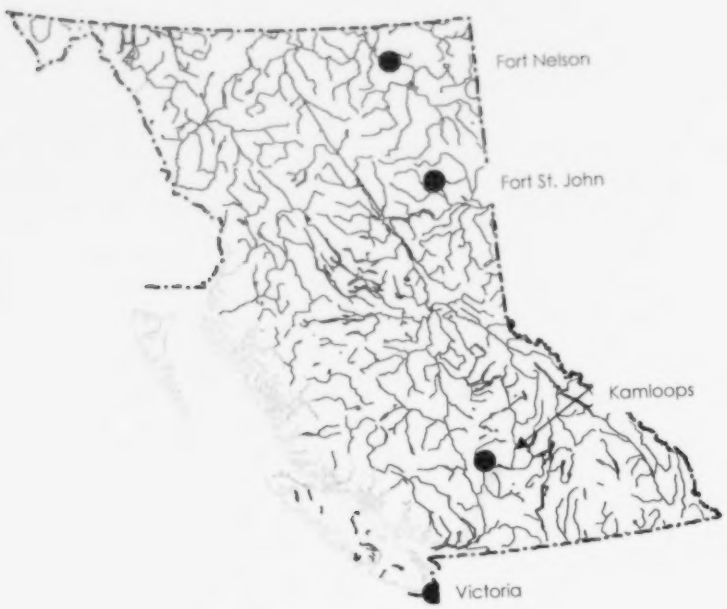
Our Key Success Factors are:

- *Upholding our core values*
- *Understanding and focusing on core services*
- *Building and sustaining competence within the organization*
- *Anticipating and responding to short and medium-term demands for the services of*
- *the organization*
- *Staying close to communities, clients, and stakeholders*
- *Recognizing barriers and developing initiatives to close performance gaps*
- *Aligning and focusing organizational energy on achieving performance targets*
- *Continuously improving business processes and technological support*

Employees are encouraged to use core values as a guide in their work activities. The degree to which the values have been used is determined through annual performance evaluations: core values are specifically measured in every evaluation. Performance evaluations on senior managers go a step further and require detailed feedback on innovation and change management. The percentage of employees who receive an appraisal is targeted and measured each year, and the Board is apprised of the results.

Goals and objectives are linked to the Commission's mission and vision through strategic planning exercises. The Executive team formulates goals, objectives, and strategies that promote the OGC mission and vision in the context of government policy direction. Performance targets are established with reference to historic performance, current performance, and future opportunities and constraints. The Commission's plans are submitted to the Board for review, comment, and approval.

The Commission has offices in Fort St. John, Fort Nelson, Kamloops, and Victoria.



The Commission has approximately 154 employees.

The core services of the Commission are:

1. Assessing applications of oil and gas applications, issuing approvals when appropriate
2. Ensuring industry compliance with legislative, regulatory, and permit-specific requirements, in part through inspections and other monitoring and enforcement activities
3. Actively consulting with First Nations on applications and operations

The OGC is delegated the duty to consult with First Nations on a project by project basis. Project consultation seeks to gain knowledge regarding traditional land use and potential impacts to Treaty or aboriginal rights. The goal is to enhance the OGC's knowledge and decision making abilities while ensuring that rights are not unduly impacted. The OGC is guided in the consultation process by agreements with the First Nations. In addition, maintaining positive relationships with the broader community ensures that local values are captured in the operations, actions and responsibilities of the OGC. The broader community includes local and regional governments, landowners, non-government organizations, community groups and others.

There are two divisions and an executive office in the Commission:

1. Operations Division

    - Project Assessment and Compliance Assurance Branch (PACA) which includes:
        - Front Counter BC
        - Application Review and Enforcement
        - North/Central West Region (Inspections)
        - South Central East Region (Inspections)
        - Compliance and Enforcement
    - Engineering
        - Operations Engineering
        - Resource Conservation
    - Technical Services & Regulatory Affairs Branch (TSRA) which includes:
        - Technical Services
        - Aboriginal Relations and Archaeology

2. Business Services Division

    - Business Services Branch
    - Information Technology and Systems Branch
    - Corporate Compliance Branch

The executive office has responsibility for Corporate and Government Relations, Human Resources, and Board administration.

Detailed information on branch and division responsibilities can be found in Appendix 1.

The Commission has business partners both within and outside government. A limited number of information technology services are provided by Common Information Technology Services (CITS). Payroll services are provided by Ceridian Corporation.

The OGC has signed Memorandums of Understanding (MOU's) with a number of ministries and agencies to further the single-window goal by clarifying roles or delegating responsibilities. In addition The OGC and the Integrated Land Management Bureau joined forces to open a Front Counter BC service centre in Fort St. John to further enhance the one window approach to government services.

There is an important distinction between the OGC and the resource ministries of government. The Ministry of Energy Mines and Petroleum Resources (EMPR) is the oil and gas

resource manager that determines where tenures will be sold and the general conditions that will guide activity on those tenures. In contrast, the Oil and Gas Commission regulates oil and gas related activities to be consistent with the policy direction established by government.

A board of directors provides oversight to the OGC, and ensures that appropriate plans, programs and capacities exist to achieve the organization's goals. The board approves budgets, performance targets and service plans. It has responsibility for ensuring accurate financial reporting and adherence to appropriate policies and procedures. The board has three members. The Deputy Minister of the Ministry of Energy, Mines and Petroleum Resources is the board chair. The Commissioner of the OGC is the board vice-chair. The third director is appointed by the Lieutenant Governor in Council. Each director has defined duties. The board's audit committee is chaired by the third director, and includes the board chair and the Executive Director, Business Services Division as an ex-officio member. The Commissioner is responsible for the operations of the Commission; detailed information on operations and service delivery are laid out in Appendix 1.

The recently introduced Governance and Human Resources Committee (GHRC) provides direction on governance matters and sets the overall compensation strategy. It is composed of the board chair, the independent board member, and two ex-officio members, the Executive Director, Business Services Division and the Director of Human Resources.

The OGC receives further guidance through formal advisory structures including an Advisory Committee appointed by government that provides advice on a broad range of matters.

This Advisory Committee is an eight-member working group that meets four times a year. The members provide strategic organizational and operational advice and issue an annual report to the Minister. While members do not have decision-making or statutory authority, they play an important role in providing recommendations for Alternative Dispute Resolution.

Appointments to the Advisory Committee are for four years and are staggered to allow for continuity within the Committee. The Commissioner of the OGC and a staff member of the Ministry of Energy, Mines and Petroleum Resources act as ex-officio members.

Some of the specific accountabilities of the Advisory Committee as described in the *Oil and Gas Commission Act* are to:

- provide advice and make recommendations to the Commission as to the fulfillment of the Commission's purposes and its adherence to outlined responsibilities,
- anticipate and identify environmental, economic and social issues arising out of the Commission's operations,
- review the Commission's operating plans and audited financial statements,
- assist the Commission to develop short and long term operating plans.

Detailed information on the Advisory Committee is available in Appendix 2.

Another important advisory committee to the OGC is the joint OGC-Industry Practice Advisory Group (PAG) composed of approximately 60 volunteers representing industry, clients, and government. The PAG structure consists of a steering committee and eight sub-committees. Each sub-committee has a Chairman and a maximum of eight members, as well as an unlimited number of associate members. The sub-committees address relevant issues, concerns, suggestions, and recommendations submitted to PAG. Further information about the Practice Advisory Group is available in Appendix 3.

The OGC participates in provincial regulatory development issues through the Best Practices Working Group comprised of government and industry representatives. Further information about the Best Practices Working Group is available in Appendix 4

Finally, the Commission receives advice from First Nations, local governments, federal and provincial agencies, the Canadian Association of Petroleum Producers (CAPP), and the Small Explorers and Producers Association of Canada (SEPAC).

The Board, Audit Committee, Governance and Human Resource Committee and the Advisory Committee all play a role to ensure that Commission staff exercise the duties of their positions in a manner consistent with core values. They also ensure that services are delivered in a manner consistent with public sector values. Those values are outlined in Appendix 5.

The Commission also manages the tax revenue and activities for the Orphan Sites Reclamation Fund. Further information about the Orphan Sites Reclamation Fund is available in Appendix 9.

In summary, the Oil and Gas Commission provides an important public service by regulating oil and gas activities in the province of British Columbia.

Inter-provincial and international pipelines are regulated by the National Energy Board.

Performance Report

This year, the OGC is pleased to report 23 of 26 strategies have been achieved or are on target; application processing timelines are at their lowest in OGC history, which may help to explain the highest levels of client satisfaction ever reported.

There were a small number of changes in targets used compared to 2005/06:

- The two measures for Goal 3, "Landowner and First Nations Satisfaction" and "Client Satisfaction" were combined to reflect the inclusiveness of landowners and First Nations in the definition of OGC clients.
- A new performance measure was created for goal five, "investment in training per employee".
- The Goal 6 measures were replaced with the new measures "ratio of fees and levies" and "percentage of costs recovered by revenue."

The Commission will complete an organization wide review of Service Plan contents in 2007/08 as part of continuous improvement efforts.

The operating environment in 2006/07 was influenced by a downturn in industry activity, notably a 21% decrease in new applications. The performance results for the year are reflective of this and other challenges. The Commission is satisfied with the results for the year.

As in past annual reports, results of operations have been set out according to Service Plan goals. The first three goals are *core* and are directly related to the *Oil and Gas Commission Act*. The related objectives and measures are important because they are tied to statutory obligations. The public and legislators can be assured that the Commission is fulfilling those obligations. The fourth goal involves regulatory reduction and single-window service. It is an important goal because it helps to create a positive economic environment, drive improved internal efficiencies, and promote alignment with government direction. The fifth goal involves providing a personal-best performance environment for staff. This goal is important because a stable, skilled and professional staff complement can help to make internal operations more efficient and effective. Finally, the sixth goal involves the financial health of the organization. Financial health can sustain and promote an enduring, effective and stable organization.

The critical measures are the Major Compliance measures (because they involve environmental protection) and the Average Days measure (because it involves operation efficiency and client satisfaction).

The Commission continues to advance in the areas of strategic planning and performance reporting. The performance measures were revised to provide a sharper focus on outputs and outcomes. The Commission will continue to review and revise these measures over time.

The Commission developed and populated this model by taking into account statutory obligations, operational priorities, and client/stakeholder satisfaction.

The Oil and Gas Commission Performance Management Model

Goals	Strategies	Measures
Goal 1 We will continually to improve public safety, protection of the environment, and conservation of petroleum resources.	Undertake risk and performance assessments, and identify appropriate preventative strategies. Deliver educational and compliance programs to industry. Implement an orphan site program as legislated by government. Improve compliance-related data collection and expand compliance-related reporting.	Major compliance: exploration & development Major compliance: facility & operations Number of inspections
Goal 2 We will make timely and informed decisions based upon the input we receive.	Complete process improvements and establish a "continuously learning" organization. Create an electronic application system and program management tools. Develop and implement an enhanced alternative dispute resolution program.	Average number of calendar days to assess new applications
Goal 3 We will strengthen our relationships with stakeholders, First Nations, and clients.	Regularly assess client and key stakeholder satisfaction with OGC. Develop an appropriate suite of dispute resolution tools for stakeholders. Review and update agreements and MOUs with First Nations and partner ministries and agencies. Work collaboratively with First Nations and industry to revitalize the GDP process. Implement a timely abandonment and restoration program for oil and gas facilities.	Client Satisfaction Percent of applications responded to by First Nations
Goal 4 We will modernize the OGC's legislative and regulatory framework.	Support the Ministry of Energy, Mines and Petroleum Resources in the development of a new legislative and regulatory framework, and in consultations relating thereto. Undertake internal business reviews and other processes necessary to facilitate the transition to a new legislative and regulatory framework. Continually manage and improve MOUs with partner ministries and agencies, and ensure good communication with other levels of government. Develop a suite of wise-management practices, facilitating site-specific approaches, for industry reference and use. Determine where prescriptive regulatory approaches remain best suited to maintenance of safety, environment and conservation-related values.	Number of agencies that industry clients must work with on oil and gas applications
Goal 5 We will provide a personal-best performance environment for our employees.	Work towards long-term solutions to our recruitment and retention challenges. Conduct regular performance evaluation and planning for all employees and close identified performance gaps. Provide appropriate training and development opportunities to support individual and organizational capacity development. Conduct regular 360° performance surveys on senior managers and close any identified performance gaps. Formally engage staff and management in the development of human resource strategies which facilitate recruitment and retention, and which contribute to a professional, collaborative and inspiring work environment.	Voluntary turnover rate of regular staff Percentage of employees with a performance plan and evaluation in place Budgeted investment in training per employee
Goal 6 We will operate as a self-sustaining organization.	Generate sufficient revenue to cover OGC costs. Ensure sufficient working capital to manage unexpected fluctuations. Develop and implement an Enterprise Risk Management Program. Introduce an improved financial information system.	Ratio between fees and levies Percentage of costs recovered by revenue

Goal 1

We will continually improve public safety, protection of the environment, and conservation of petroleum resources.

Objective

1. Increase the number and effectiveness of field inspections.
2. Work collaboratively with industry to improve compliance and risk management.

Strategies

Undertake risk and performance assessments, and identify appropriate preventative strategies.	Achieved
Deliver educational and compliance programs to industry.	Achieved
Implement an orphan site program as legislated by government.	Achieved
Improve compliance-related data collection and expand compliance-related reporting.	Achieved

Measures

	2006/07 Target	2006/07 Result	2007/08 Target	2008/09 Target	2009/10 Target
Major compliance: exploration & development	93%	99%	94%	95%	96%
Major compliance: facility & operations	97%	95%	97%	97%	97%
Number of inspections	3,750	4,124	4,370	4,990	4,990

All strategies for this Service Plan Goal were achieved fully through the activities of the Commission in fiscal 2006-07.

In addition, the measured results of the OGC for Goal one either exceeded or were very close to achieving targets set in last year's service plan. The Exploration and Development compliance measure has increased steadily from 88% in 03/04, to 93% in 04/05 to a high of 99% in 2006/07. The Facility and Operations compliance rate has remained steady at or near 97% since 2003/04.

Changes to the methodology for major compliance may have resulted in the facility and operations target being lower than expected. This year, the list of deficiency compliance codes used by inspectors was expanded. The requirement for industry to comply with regulations is unchanged.

The measures that were chosen by the Commission reflect the results of inspections of Oil and Gas Operations throughout the Province. These activities provide an indicator of industry compliance to the regulations and legislation that are in place to ensure public safety, environmental protection and prevention of waste of petroleum resources. As the levels of oil and gas activity have increased over the past several years, there is a greater need to expand inspection efforts.

The compliance rates of the oil and gas industry in British Columbia are comparable to those of other areas. The benchmark used for the compliance rates are from Alberta, at 98% for each of the measures shown above. No comparable measure is available for the number of inspections.

Goal 2

We will make timely and informed decisions based upon the input we receive.

Objectives

1. Maintain service levels and meet growth demands through the continuous improvement of people, processes and tools.

2. Combine community knowledge and science in all aspects of regulation.

3. Improve dispute resolution processes, procedures and outcomes.

Strategies

Complete process improvements and establish a "continuously learning" organization.	Achieved
Create an electronic application system and program management tools.	Achieved
Develop and implement an enhanced alternative dispute resolution program.	Achieved

Measure

	2006/07 Target	2006/07 Result	2007/08 Target	2008/09 Target	2009/10 Target
Average number of calendar days to assess new applications	24	25	23	21	21

All strategies for Goal Two for the Commission were achieved in 2006/07. The strategy to complete process improvements was accomplished through activities to enhance internal efficiencies and process historic backlogs. An electronic application system was developed for pipelines as Phase 1 of a multi-phase project. Development of the electronic application system for wells and geophysical (Phase 2) is underway. The third strategy was addressed by developing a Guide to Public Engagement and Appropriate Dispute Resolution which was implemented in October 2006.

The result for 2006/07 represents a marked improvement from the 2005/06 result of 33.28 days. This measure was selected because it provides industry with approximate processing timelines. This timeline in turn gives certainty for operational planning purposes.

A large component of application processing timelines is tied to consultations with First Nations. Changes to the First Nations Consultation Process outlined in the new Treaty 8 Memorandum of Understanding and in the Blueberry First Nation Long Term Oil and Gas Agreement may provide further opportunities for efficiencies.

The baseline for this measure is 27.1 days (1998/99), and is comparable to a benchmark set by the Colorado Oil and Gas Conservation Commission to "Process all complete permit applications within 30 days". No published results. Please refer to http://oil-gas.state.co.us/.

This measure demonstrates a linkage with government priorities because government priority actions include ensuring that B.C. "Undertakes economic activity in ways that ensure sustainable environmental management" and "Making B.C. one of the most business friendly jurisdictions in Canada to attract and retain investment". Source: BC Government Strategic Plan: http://www.bcbudget.gov.bc.ca/2006/stplan/

Goal 3

We will strengthen our relationships with stakeholders, First Nations, and clients.

Objectives

1. Improve extent and quality of engagement with stakeholders, First Nations, and clients.
2. Provide a dispute resolution model of appropriate scope.
3. Ensure appropriate consultation regarding application assessments.

Strategies

Regularly assess client and key stakeholder satisfaction with OGC.	Achieved
Develop an appropriate suite of dispute resolution tools for stakeholders	Achieved
Review and update agreements and MOUs with First Nations and partner ministries and agencies.	Achieved
Work collaboratively with First Nations and industry to revitalize the GDP process.	Replaced with the CPA
Implement a timely abandonment and restoration program for oil and gas facilities.	On Target

Measures

	2006/07 Target	2006/07 Result	2007/08 Target	2008/09 Target	2009/10 Target
Client Satisfaction	80%	89%	85%	85%	85%
Percent of applications responded to by First Nations	84%	76%	84%	84%	84%

All strategies for Goal Three were achieved transferred or were on target for 2006/07. The strategy to regularly assess client and key stakeholder satisfaction with OGC was achieved through the use of a survey. The second strategy was addressed by implementing a Guide to Public Engagement and Appropriate Dispute Resolution in October 2006. The strategy to review and update agreements and MOUs with First Nations and partner ministries and agencies was achieved and implementation is now underway.

The fourth strategy refers to a historic process known as the "General Development Plan" (GDP) which outlines a working relationship between the OGC and First Nations. The use and development of GDPs has since has been replaced with the newly negotiated Consultation Practices Agreement. The strategy to implement a timely abandonment and restoration program for oil and gas facilities will be integrated with the overall OGC Environmental Liability Program.

The performance measures "Landowner and First Nations Satisfaction" and "Client Satisfaction" were combined to a single measure "Client Satisfaction", to reflect the inclusiveness of landowners and First Nations in the definition of OGC clients. This measure was chosen because understanding areas of client satisfaction can help improve service delivery.

The result for client satisfaction of 89% exceeds the target set of 80% and exceeds the benchmark for client satisfaction of 75% set in 2004/05, when the survey was first conducted. No exact benchmark is available at this time. The Commission has reviewed the information of the AEUB, Oklahoma Corporate Commission, Railroad Commission of Texas, Colorado Oil and Gas Conservation Commission, and Saskatchewan Industry and Resources. The OGC will continue research in this area.

The measure "Percent of Applications Responded to by First Nations" reflects the capacity of those groups to be engaged in consultations around oil and gas activities and a measure of the ability of the OGC to manage relationships with multiple stakeholder groups. The baseline result for the performance measure is 75.2% (2001/02). No benchmark data are available. The target results were not achieved due to capacity constraints within several First Nations.

Goal 4

We will modernize the OGC's legislative and regulatory framework.

Objectives

1. Establish a comprehensive legislative and regulatory framework that enables improved and single-window delivery of services to industry.

2. Move towards results-based regulation where appropriate, facilitating reliance on best-available technical information and wise-management practices.

Strategies

Support the Ministry of Energy, Mines and Petroleum Resources in the development of a new legislative and regulatory framework, and in consultations relating thereto.	Achieved
Undertake internal business reviews and other processes necessary to facilitate the transition to a new legislative and regulatory framework.	Achieved
Continually manage and improve MOUs with partner ministries and agencies, and ensure good communication with other levels of government.	Achieved
Develop a suite of wise-management practices, facilitating site-specific approaches, for industry reference and use.	Achieved
Determine where prescriptive regulatory approaches remain best suited to maintenance of safety, environment and conservation-related values.	Achieved

Measure

	2006/07 Target	2006/07 Result	2007/08 Target	2008/09 Target	2009/10 Target
Number of agencies that industry clients must work with on oil and gas applications	2	2	1	1	1

All corporate strategies relating to this goal were fully achieved during the year by working collaboratively with MEMPR and other ministries and agencies. The OGC established a Branch specifically dedicated to efforts around the development of a new legislative and regulatory framework and has developed joint resource-groups between OGC and MEMPR staff to resolve key issues. Internal reviews of business processes and capacities have identified areas to be included in upcoming legislative or regulatory changes.

This performance measure was introduced in the 2005 Service Plan because it was determined to be the best measure for gauging success towards meeting the single-window goal of the Commission. The baseline figure for this measure is 6 agencies (1998/99), which decreased to 3 in 2004/005 and decreased again to 2 in 2005/06. Further progress towards meeting this goal will require implementation of the Oil and Gas Regulatory Improvement Initiative (OGRII).

This measure will be retired at the end of 2008/09 because the Commission will have attained the single-window goal first envisioned with the 1998 *Intent of the Oil and Gas Commission*. This document is available at:
http://www.ogc.gov.bc.ca/documents/misc/formationandintent.pdf

Goal 5

We will provide a personal-best performance environment for our employees.

Objectives

1. Improve organizational flexibility and competitiveness as an employer.
2. Enhance employee capabilities and professionalism.
3. Enhance management and leadership capabilities.
4. Improve employee retention.
5. Improve organizational productivity.

Strategies

Work towards long-term solutions to our recruitment and retention challenges.	Achieved
Conduct regular performance evaluation and planning for all employees and close identified performance gaps.	Partially Achieved
Provide appropriate training and development opportunities to support individual and organizational capacity development.	Achieved
Conduct regular 360° performance surveys on senior managers and close any identified performance gaps.	Achieved
Formally engage staff and management in the development of human resource strategies which facilitate recruitment and retention, and which contribute to a professional, collaborative and inspiring work environment.	Achieved

Measures

	2006/07 Target	2006/07 Result	2007/08 Target	2008/09 Target	2009/10 Target
Voluntary turnover rate of regular staff	10%	14.57%	9%	8%	7%
Percentage of employees with a performance plan and evaluation in place	100% of Employees	100% of Management	100% of Employees	100% of Employees	100% of Employees
Budgeted investment in training per employee	$4,000	$2,114	$3,000	$4,000	$4,000

In 2006/07, the OGC experienced a year of transition, highlighted by an exit from the Public Service Agency completed in September 2006. This exit supported the strategy to work towards long-term solutions to recruitment and retention challenges.

While all strategies for Goal 5 were either fully or partially achieved, the target measures of success were not met. While voluntary turnover rates are down significantly from last year's reported value of 21.95%, the baseline for this measure is 9% (2000/01). The results for 2003/04 were 6%, and for 2004/05 were 11.6%. Benchmark values are provided by the government of BC's Employee Turnover Rate of 2.7% (2005/06) and by the Alberta Energy and Utilities Board rate of 5.4% (2004/05).

The metric for "Percentage of employees with a performance plan and evaluation in place" was introduced in 2003/04. For 2006/07, the Commission achieved 180° performance surveys on senior leaders only. This was due to the development of a new performance management system including an accountability matrix which will be implemented in 2007/08. Baseline results for 2004/05 were 100% of *excluded* employees, and for 2005/06 76% of all staff had plans in place. No benchmark has been found to date.

The budgeted investment in training of $2,114 per employee reflects substantial training activity that has occurred over the year with a particular emphasis on enhancing compliance and enforcement capability. The measure was introduced in 2005/06 and is compared to the benchmark reported by the Conference Board of Canada of $852 as the average training expenditure per employee spent in Canada.

These measures were chosen because they reflect the ability of the OGC to maintain and enhance critical technical expertise and capacities to deliver its mandate.

Goal 6

We will operate as a self-sustaining organization.

Objectives

1. Achieve targeted financial results.
2. Minimize working capital pressures.
3. Ensure that prudent risk management practices are in place.

Strategies

Generate sufficient revenue to cover OGC costs.	Achieved
Ensure sufficient working capital to manage unexpected fluctuations.	Achieved
Develop and implement an Enterprise Risk Management Program.	Achieved
Introduce an improved financial information system.	Achieved

Measures

	2006/07 Target	2006/07 Result	2007/08 Target	2008/09 Target	2009/10 Target
Ratio between fees and levies	55:45	55:45	56:44	56:44	56:44
Percentage of costs recovered by revenue	100%	111%	100%	100%	100%

All strategies and measures for this goal were achieved or exceeded, indicating strong financial stability at the OGC.

The first two corporate strategies were achieved because revenues exceeded expenses for the year. The "Financial Report" section provides detailed information and analysis. For the final two strategies, the first phase of the risk management program is completed with Phase 2 supporting activities to be examined in 2007/08. A new financial information system has been implemented for the OGC.

The first measure, "ratio between fees and levies" was chosen because it provides some assurance that the appropriate sources of revenues are being collected from appropriate operating groups in the Province. The values for previous years for this measure were the baseline measured at 66:34 in 2003/04, and 59:41 for 2004/05 (this measure was not reported in 2005/06). Benchmarks are not yet identified for this measure.

The second measure, "percentage of costs recovered by revenue" was selected because it is a good indicator of the financial stability of the OGC. If revenue exceeds expenses, working capital will increase and the organization can better manage fluctuations in cash requirements. The baseline for this measure is 0.95:1 from the 1998/99 fiscal year and results for 2004/05 and 05/06 were 114% and 106% respectively. No comparable benchmark has been found to date.

Financial Report

Management Discussion and Analysis

Results of Operations

The Commission budgeted for revenue to equal expenses. On a *non-consolidated* basis, the Commission ended the year with revenue exceeding expenses by $2.78M. This variance is almost entirely attributed to delays or unforeseen reductions in planned spending – spending that will occur, for the most part, in 2007/08.

Summary Financial Results NON-CONSOLIDATED $000	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Budget	2005/06 Actual	2006/07 Budget	2006/07 Actual †
Revenues							
Fees*	10,904	14,019	16,243	14,982	16,605	17,909	14,364
Levies	6,756	6,221	10,283	11,173	11,415	14,693	14,176
Misc. & Recoveries	102	120	402	50	1,709	545	1,050
Total Revenues*	**17,762**	**20,360**	**26,928**	**26,205**	**29,729**	**33,147**	**29,590**
Expenses							
First Nations	5,347	8,779	9,819	9,940	11,108	11,600	9,065
Salaries and Benefits	6,272	8,343	9,198	10,497	10,078	13,303	11,262
Operating Expenses	3,314	3,959	4,588	5,416	6,776	6,533	6,574
Total Expenses	**14,933**	**21,081**	**23,605**	**25,853**	**27,962**	**31,436**	**26,901**
Operating Income (Loss)*	**2,829**	**-721**	**3,323**	**352**	**1,767**	**1,711**	**2,689**
Amortization of Contributed Assets	69	95	95	95	95	95	95
Net Income (Loss)	**2,898**	**-626**	**3,418**	**447**	**1,862**	**1,806**	**2,784**

† Fiscal 2006/07 financial data reported on a non-consolidated basis, *excluding* the Orphan Sites Reclamation Fund
* These figures are the restated amounts resulting from the prior period adjustment in 2004/05.

Fee revenue was 20% lower than budgeted. The key reason is found in the number of well applications (WAs) received - 21% lower than budgeted (1,527 actual versus 2,000 budgeted). First Nations payments were 22% lower than expected. The decrease was driven by the decreased number of WA's reflecting decreased levels of activity, which is how most First Nations payments are funded.

Salary and benefit costs were lower than budgeted, and are reflective of recruitment delays common to northern employers. In addition, $1.5M had been budgeted for more market related compensation to enable competitive salaries for several vulnerable positions and thereby stabilize the workforce. However, this use of this compensation budget was and is subject to negotiation with the British Columbia Government Employee Union and the Professional Employees Union – these negotiations are ongoing.

The variance to last year's results reflects:

- Decreased industry activity, which led to decreased fee revenue;
- Decreased First Nations payments, which are tied directly to industry activity; and,
- Lower salary costs largely due to unspent market related compensation.

Notably, levy revenue remained relatively constant. Lower gas levy revenue was largely offset by higher than expected oil levy revenue.

The expectation is that industry activity will experience a further temporary decline.

Capital expenditures for the year were $1.26M and primarily reflect expenditures for vehicles, computer hardware, and the IT Migration Project.

The Commission is funded solely through revenue from the consolidated revenue fund of the Province of British Columbia. Commission revenues have two components. The first component is the levy, which is based on oil and gas production. It is fairly stable and changes slowly as overall production changes. It is somewhat linked to commodity prices: pricing trends influence activity, and over the long term activity levels affect production. The second component is fees. Fee revenue is related directly to exploration activity and is volatile, changing quickly based on commodity prices and other factors. Both fees and levies are paid by industry.

Funding was sufficient to meet operating requirements, strategies and targets.

The Commission is not bound by the lapsing provision of the *Financial Administration Act*. Operating surpluses or deficits are carried-forward to the next fiscal year.

The Commission completed its assessment of its financial system and has implemented an integrated financial management system using the Microsoft Enterprise GP platform.

The budgeting and planning cycle is outlined in the following table. Resource allocation decisions are made in this annual cycle:

Summer	• Board gives management overall strategic direction for the upcoming year • Management undertakes strategic planning exercises and identifies program priorities
Fall	• Commission receives budget guidance from the Board • Commission creates the draft budget • Commission presents the draft budget to the Board
Winter	• Board approves the budget • Budget is tabled in the Legislature
Spring	• Budget is delegated to responsibility centre managers

The Finance and Administration Branch prepares quarterly financial statements at June 30, September 30, December 31, and March 31 to identify forecasted or actual net revenue and the closing cash balance.

Variable costs make up virtually all Commission expenses. They include salaries and benefits, First Nations payments, and most operating expenses. This cost pattern allows the Commission to respond quickly to unanticipated changes in the operating environment.

Fixed and semi-fixed costs include facility and vehicle lease payments. The Commission has leased office space in Fort St. John, Fort Nelson, Kamloops, and Victoria. The Commission also has leased vehicles.

Key Performance Drivers

1. Business & Policy Environment

- Industry Activity:

  A level of industry activity that meets or exceeds the forecast is essential for the Commission to achieve its financial and performance goals. The Commission works closely with Ministry of Energy, Mines and Petroleum Resources (MEMPR) and the Canadian Association of Petroleum producers (CAPP) to identify forecast industry activity. Mid-course corrective measures are implemented as required.

- Regulatory Environment:

  The Commission continues to work closely with MEMPR on the transition from a prescriptive regulatory approach to a results-based approach. The outcome would be a regulatory framework that better promotes professional reliance, operational efficiencies and client satisfaction. During the previous year, MEMPR published a discussion paper on the Oil and Gas Regulatory Improvement Initiative (OGRII). It is available at their website: http://www.em.gov.bc.ca/Oil&gas/reg_improvement.htm

2. Internal Environment

- Information Systems:

  Accurate information is critical for effective decision making. To further this goal, numerous upgrades were made to the operating systems and upgrades were initiated to the financial systems. On April 1, 2007, the new financial system became operational.

  The most significant event was the continuation of the three-year IT Migration Plan. This plan will see the retirement of OGC legacy systems and the creation of a new service delivery model. There will be substantial benefits for both OGC and industry clients. It will increase data reliability, improve internal efficiencies, reduce cycle times, enable faster system responses to future business changes.

  The project will ultimately enable electronic application submission by clients, electronic performance/compliance data submission, electronic data import, electronic workflow management, separation of routine vs. non-routine workflows, electronic document management, remote synchronization with the central database, online access by related Ministries and Agencies, and online access by First Nation partners.

- Staff:

  Improved core-competencies and job-specific skills are a key focus for the OGC. Several steps were taken during the year to progress in this area. The most significant step was the exit from the Public Service Act which will enable greater flexibility in Human Resource practices.

Risk Management

The Corporate Compliance Branch has developed a framework to implement an OGC *Risk Register* in 2006/07 as a key component of the OGC Enterprise Risk Management Strategy. The *OGC Risk Register* now includes fully documented process flow analysis for all major business processes. In addition, the *OGC Risk Register* documents options for risk mitigation, strategies, and timelines. The Audit Committee prioritizes the overall mitigation strategy for efficient use of available resources.

Those staff or related parties responsible for oversight are identified in conjunction with a timeline for milestones and ongoing review.

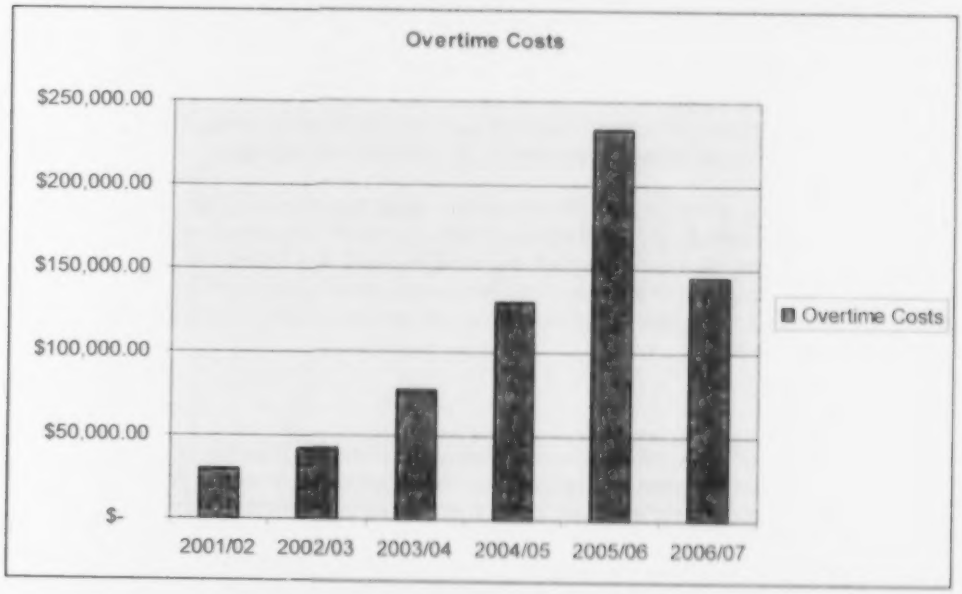
Capacity

The number of well applications (WA) has been the traditional measure of capacity for the organization. That approach is now recognized to be too narrow for the broad range of services that are provided by the Commission.

There are very few performance standards in place for individual positions or teams of positions. As a result, it is difficult to determine overall capacity.

For this fiscal year, annual overtime expense is being used as a proxy for capacity. If overtime were low or nil, an assumption could be made that there is capacity in the organization for additional workload.

Overtime expenses for the last six fiscal years are presented below:



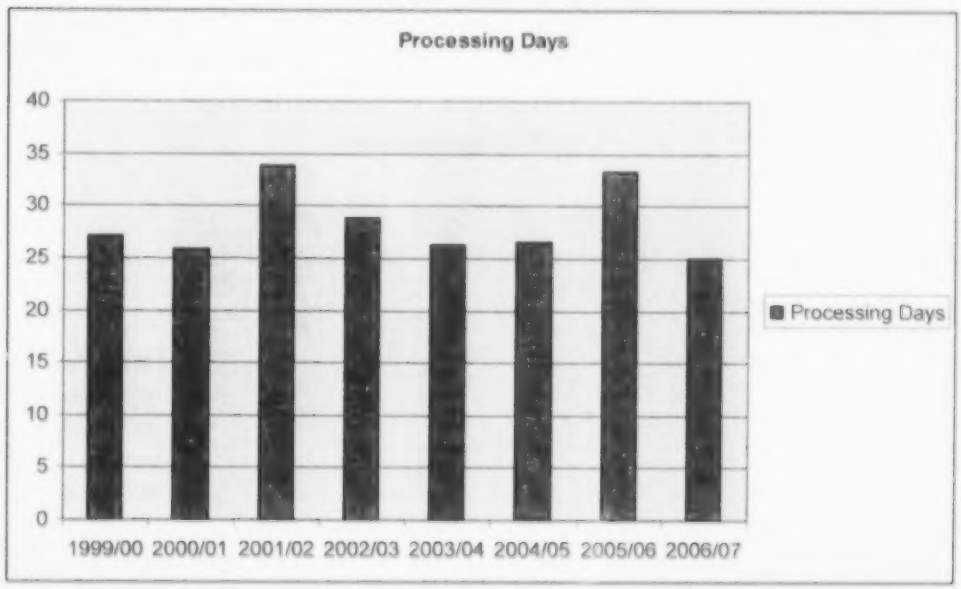
Overtime expenses have clearly decreased this year. The apparent conclusion is that workload has fallen to a level more in keeping with capacity, evidenced in part by the decrease in application activity as a key driver for overall activity.

This reduction in capacity gap over the prior period has positively influenced processing timelines: the average time to process new applications decreased by eight days over last year.

Many business processes are very labour-intensive; they are the main capacity constraint. The outdated information systems are the secondary constraint. The I.T. Migration Plan is therefore of high strategic importance. Together with increased funding allocated for staffing and for professional development in 2007/08, management is of the opinion that capacity will increase substantially to meet future objectives in mid-2006/07. This is expected to coincide with an overall reduction in industry activity enabling the Commission to further reduce application processing times.

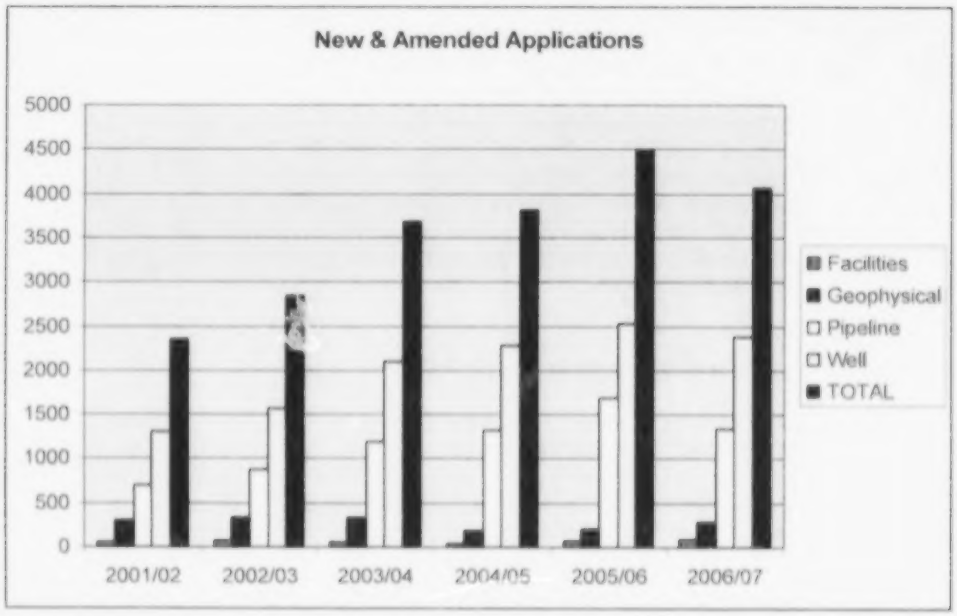
Independently-Determined Historical Operating Data

The number of calendar days to assess new applications decreased noticeably from the previous fiscal year and met the target of 25 calendar days. There are three key reasons: First, the number of new well applications received during the year decreased 21% over the previous year; second, the Commission's capacity increased due to the increase in FTEs from 140 to 154; and third, several process changes were introduced, further increasing capacity.

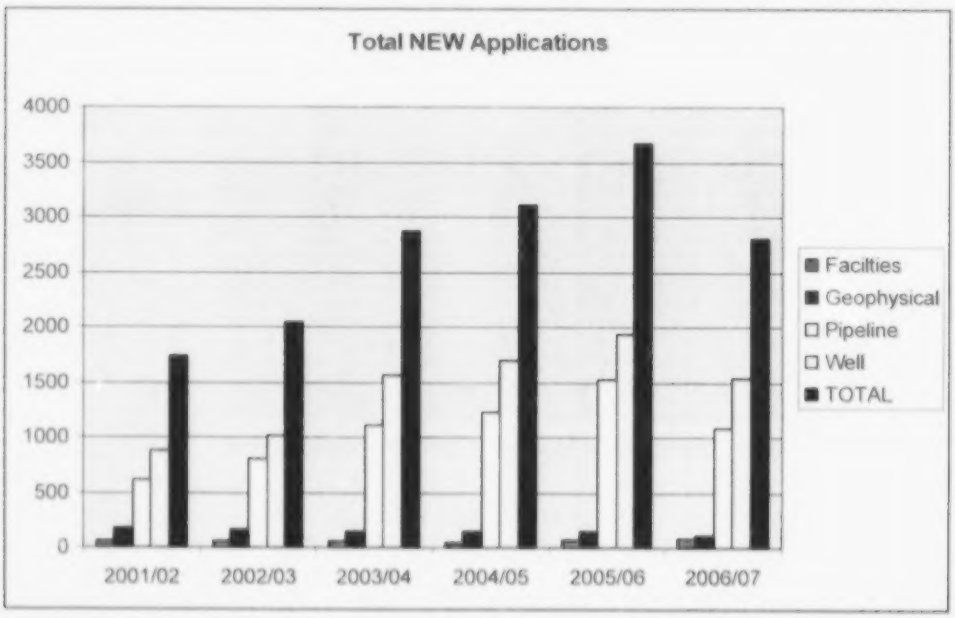


Management will continue to closely monitor processing timelines. The Commission will also have discussions with clients to determine if there is a more meaningful measure of efficiency that is available.

Total applications (new *and amended* applications) decreased 11% over last year:
Well applications, the most significant revenue driver, decreased 21%.



New applications (all activities) decreased 25.9% over last year:



Data integrity

Management has high confidence in the integrity of financial data. Based on an independent assessment of the financial systems this year, The Commission has implemented a new comprehensive financial management system based on the Microsoft Dynamic GP platform.

Management has high confidence in the integrity of most operating data. However, some errors and omissions have been identified in pipeline data. A project to correct the errors has been in place for two years and shows marked success in improving data quality. Work continues.

In response to access and physical storage requirements for Commission paper files, a commitment has been made to proceed with a file digitization project which will commence in 2007/08.

The Commission has an Information Systems Branch that manages the development and maintenance of operating systems. Controls, including data audits, are in place to ensure the integrity of operating data.

Oversight

The Board of Directors, Audit, and Governance and Human Resources Committees provide an oversight role in the governance of the Commission. Oversight activities include ensuring that appropriate plans and policies are in place, approving the Commission's budget and service plan, reviewing the Commission's performance to planned targets, and approving the organizational structure and level of staffing.

Financial statements of the Commission and the Science and Community Environmental Knowledge (SCEK) Fund are independently audited each year.

The Advisory Committee provides a level of oversight with respect to *operating* decisions. Any interested party may initiate a request for reconsideration by Alternate Dispute Resolution (ADR) to the Advisory Committee if they feel that a better original decision could have been made through ADR. The Advisory Committee is operationally independent of the Commission. Please refer to Appendix 2.

Management Perspective of the Future

The Commission has developed a three year financial plan. The details of the Summary Financial Outlook and assumptions are on the following two pages. Please refer to the 2007/08-2009/10 Service Plan for strategies and measures which indicate the Commission's business objectives for the future, as well as the means to achieve performance targets.

Capital Planning

The Commission has no major capital plans as defined by the *Budget Transparency and Accountability Act* (plans in excess of $50M). The IT Migration Project has anticipated capital costs of $1.8M over four years.

Confidentiality

This report is complete and contains no confidential information.

Summary Financial Outlook – Non-Consolidated Basis

($000)	2005/06 Budget	2005/06 Actual	2006/07 Budget	2006/07 Actual	2007/08 Budget	2008/09 Estimate	2009/10 Estimate
Revenue							
Fees	14,982	16,605	17,909	14,364	13,900	14,770	15,640
Levies	11,173	11,415	14,693	14,176	14,003	14,003	14,003
Misc.	50	1,709	545	1,050	1,025	1,025	1,025
Total Revenues	**26,205**	**29,729**	**33,147**	**29,590**	**28,928**	**29,798**	**30,668**
Expenses							
First Nations	9,940	11,108	11,600	9,065	8,700	9,280	9,360
Salaries/Benefits	10,497	10,078	13,303	11,262	14,270	14,698	15,066
Operating expenses	5,416	6,776	6,533	6,574	7,936	8,174	8,419
Total Expenses	**25,853**	**27,962**	**31,436**	**26,901**	**30,906**	**32,152**	**33,345**
Operating Income (Loss)	**352**	**1,767**	**1,711**	**2,689**	**-1,978**	**-2,354**	**-2,677**
Amortization of Contributed Assets	95	95	95	95	95	48	0
Net Income (Loss)	**447**	**1,862**	**1,806**	**2,784**	**-1,883**	**-2,306**	**-2,677**
Full Time Equivalents	140	154	154	154	154	154	154
Capital Expenditures	452	826	1,716	1,257	1,382	1,423	1,466
Linking Goals with Required Resources							
Goal 1	3,874	4,214	5,287	4,341	5,405	5,567	5,716
Goal 2	3,395	3,539	4,441	3,806	4,739	4,881	5,012
Goal 3	1,957	2,191	2,749	2,194	2,731	2,813	2,889
Goal 4	2,381	2,360	2,961	2,668	3,322	3,422	3,513
Goals 5 & 6	4,306	4,551	5,710	4,826	6,009	6,189	6,355
Total Required Resources (Direct Operating Costs: Total Expenses less First Nations payments)	**15,913**	**16,854**	**21,147**	**17,836**	**22,206**	**22,872**	**23,485**

Key assumption follow overleaf ...

Key Assumptions

- Forecasted new well applications are
  1,500 budget fiscal 2007/08
  1,600 forecast fiscal 2008/09
  1,700 forecast fiscal 2009/10
- Gas volumes are 28.5 x $10^9 m^3$, 28.5 x $10^9 m^3$, & 28.5 x $10^9 m^3$ (Ministry of Energy, Mines and Petroleum Resources).
- Oil volumes are 1.26 x $10^6 m^3$, 1.26 x $10^6 m^3$, & 1.26 x $10^6 m^3$ (Ministry of Energy, Mines and Petroleum Resources).
- Gas prices remain in excess of $5/MCF.
- Estimated salaries increase
  3.0% fiscal 2008/09
  2.5% fiscal 2009/10
- Inflation estimated at 3.0% per annum
- The following levies and fee are implemented:

  SEE NOTE BELOW *

Forecast Risks and Sensitivities

- Commodity price and production fluctuations
- Weather
- Exploration activity

	2006/07	2007/08	2008/09	2009/10
Gas Levy:	46¢	46¢ *	46¢ *	46¢ *
Oil Levy:	92¢	92¢ *	92¢ *	92¢ *
Well Fee:	$8,700	$8,700 *	$8,700 *	$8,700 *

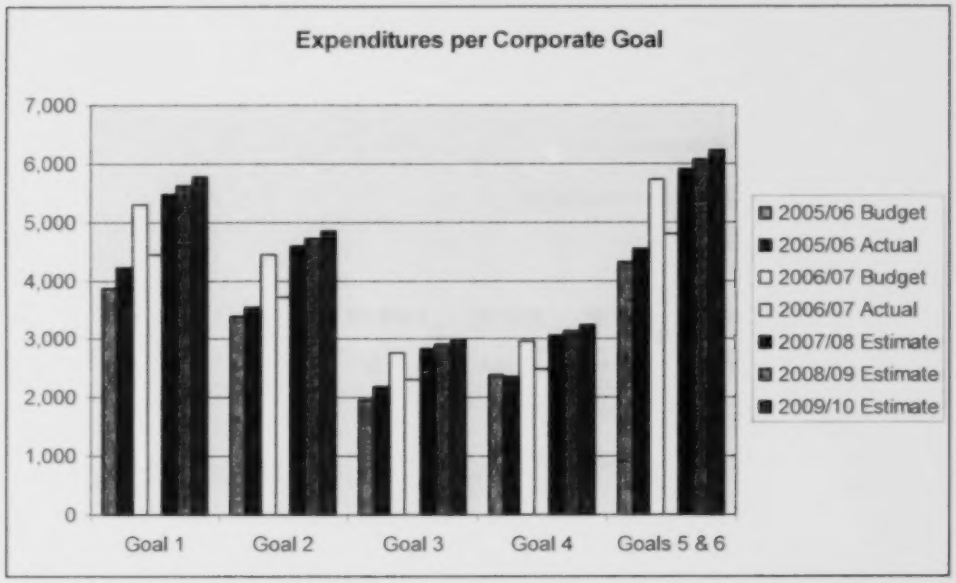
* Effective May 1, 2007, the Well Application Fee increased to $9,100 (for first drills and $8,600 for second drills) and the levies increased to 47¢ per 1,000 cubic metres of gas and 94¢ per cubic metre of oil. The increases will, in agreement with the Canadian Association of Petroleum Producers, provide revenue for the *Science, Community, and Environmental Knowledge Fund* (SCEK) and therefore are not otherwise reflected in the OGC revenue estimates.

Note:
The *OGC Service Plan* for fiscal 07/08-09/10 report on financial performance estimated 1,700 WAs in the draft budget for fiscal 2007/08. In this report, this estimate has been revised downward to 1,500 WA's for the final 2007/08 budget. Similarly, the forecasts for fiscal 2008/09 and 2009/10 have been revised to 1,600 and 1,700 WAs - down from 1,800 and 1,900 WAs respectively as represented in the Service Plan.

Financial Resources and Corporate Performance

Program resources are identified and allocated during the budget planning, building, and approval cycle. This allocation is primarily driven by corporate goals, objectives, and strategies. Secondary drivers are the business plans of individual branches and divisions. Expenditures are recorded daily and reported regularly to senior management and the board.

Expenditures on Goals One and Two are relatively high and reflect the focus of management on core business:



Expenditures on Goals Five and Six are combined, and reflect their direct costs as well as corporate overhead expenses.

Expenditures on all corporate goals are expected to increase modestly. This pattern reflects the resource needs of regulating the increasing level of industry activity.

In 2004, and again in 2006, a cost-driver analysis was undertaken by the professional services firm Meyers Norris Penny. This exercise identified the cost of every activity and output of the Commission. The data was used to structure the well fee and production levies in a fair and transparent manner.

The Commission has allocated funding by objective or strategy where possible. In certain cases, allocation to that detail was not possible: there may have been overlap or the precise costs could not be identified.

Alignment with Government's Strategic Plan

The OGC conducts itself in a manner that is consistent with government's core values of integrity, fiscal responsibility, accountability, respect and choice. There is a strong alignment between OGC activities – and the pursuit of the specific goals defined in this service plan – and government's overarching vision, which is:

> *To be a prosperous and just province, whose citizens achieve their potential and have confidence in the future*

There is also a strong alignment between OGC activities and goals, and two of government's Five Great Goals for the decade ahead:

> *To lead the world in sustainable environmental management*

Sustainable environmental outcomes are key criteria across all of the OGC's core service areas. They are central elements of the application assessment, compliance and enforcement and resource conservation functions. Advancing the quality of environmental outcomes through, for example, the application of traditional knowledge – is also a key element of the First Nations consultation function. With its regulation of an important and growing natural resource sector, the OGC makes a significant contribution to the pursuit of sustainable environmental management throughout British Columbia.

> *To create more jobs per capita than anywhere else in Canada*

One of the key objectives of timely and single-window regulation is to ensure that industry is not unduly inhibited in its ability to respond to opportunities, and to achieve optimal levels of productivity and growth. A regulatory environment of this type fosters employment growth within the oil and gas sector. By providing such regulation within one of British Columbia's most dynamic economic sectors, the OGC makes a significant contribution to job creation.

Oil and Gas Commission
Consolidated Financial Statements

March 31, 2007

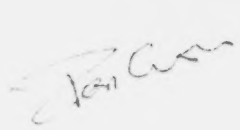
Oil and Gas Commission

Statement of Management Responsibility

The consolidated financial statements of the Oil and Gas Commission for the year ended March 31, 2007 have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated financial statements present fairly the financial position of the Commission as at March 31, 2007, and the results of its operations and changes in its financial position for the year then ended.

Management is responsible for the preparation of the consolidated financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that financial records provide reliable information for the preparation of financial statements.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of the Oil and Gas Commission. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Oil and Gas Commission.



Ross Curtis
Commissioner

James Sproul
Executive Director, Business Services

Date

May 25, 2007

Report of the Office of the Auditor General of British Columbia

To the Board of Directors of the Oil and Gas Commission, and

To the Minister of Energy, Mines and Petroleum Resources Province of British Columbia:

I have audited the consolidated statement of financial position of the *Oil and Gas Commission* as at March 31, 2007 and the consolidated statements of operations and net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the *Oil and Gas Commission* as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 25, 2007

Errol Price, CA
Acting Auditor General

Oil and Gas Commission
Consolidated Statement of Financial Position
(in $000s)

March 31	2007	2006
		(restated – Note 14)
Assets		
Current assets		
Cash	**8,061**	7,398
Accounts receivable	**4,502**	4,818
Due from Province of British Columbia *(Note 3)*	**2,364**	3,113
Prepaid expenses	**135**	51
	15,062	15,380
Property, plant and equipment *(Note 4)*	**3,080**	2,177
	18,142	17,557
Liabilities and Net Assets		
Current liabilities		
Accounts payable	**1,467**	602
Wages payable	**780**	608
Due to First Nations	**496**	2,087
Due to the Province of British Columbia *(Note 3)*	**403**	3,011
	3,146	6,308
Net Assets		
Net assets	**14,853**	11,011
Contributed assets *(Note 5)*	**143**	238
	14,996	11,249
	18,142	17,557

Science and Community Environmental Knowledge (SCEK) Fund *(Note 7)*

Orphan Site Reclamation (OSRF) Fund *(Note 8)*

Contingent Liability *(Note 9 and 10)*

Greg Reimer
Board Chair

Ross Curtis
Commissioner

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Consolidated Statement of Operations and Net Assets
(in $000s)

March 31	2007	2006
Revenues		
Fees *(Note 11)*	**14,364**	16,605
Levies *(Note 11)*	**15,245**	11,415
Recoveries from Province *(Note 12)*	**772**	1,545
Miscellaneous	**267**	164
	30,648	29,729
Expenses		
Salaries and benefits	**11,262**	10,078
First Nations *(Note 13)*	**9,065**	11,108
Professional services and training	**1,690**	1,816
Travel and vehicle costs	**1,248**	1,150
Building occupancy	**1,227**	1,222
Telecommunications and info systems	**775**	699
Amortization	**582**	462
Miscellaneous and reserve for doubtful accounts	**553**	1
Office supplies and equipment	**492**	539
Grants	**7**	9
Orphan well reclamation	**-**	878
	26,901	27,962
Revenue from operations	**3,747**	1,767
Amortization of contributed assets *(Note 5)*	**95**	95
Net revenue from operations	**3,842**	1,862
Net assets beginning of year	**11,011**	9,149
Net assets end of year	**14,853**	11,011

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Consolidated Statement of Cash Flows
(in $000s)

March 31	2007	2006
Operating activities		
Cash generated from:		
Fees *(Note 11)*	**15,381**	15,907
Levies *(Note 11)*	**14,231**	10,465
Miscellaneous	**258**	168
	29,870	26,540
Cash used for:		
Payments to First Nations	**10,656**	10,410
Salaries & benefits	**12,592**	9,841
Operating costs	**4,702**	5,509
	27,950	25,760
Cash from operating activities	**1,920**	780
Investment activities		
Cash used for:		
Purchase of plant and equipment	**(1,257)**	(715)
Cash used in investment activities	**(1,257)**	(715)
Increase in cash	**663**	65
Cash beginning of year	**7,398**	7,333
Cash end of year	**8,061**	7,398

The accompanying notes are an integral part of these statements.

1. The Oil and Gas Commission

The Oil and Gas Commission (the "Commission") was established under the *Oil and Gas Commission Act* on July 30, 1998, to regulate industry activity on oil and gas lands and to resolve industry land use and economic issues related to Aboriginal Lands on behalf of the Province of British Columbia. The Commission is also accountable for delivering initiatives and programs that serve to minimize the environmental impact of oil and gas activities in British Columbia.

The Commission is funded solely through revenue from the consolidated revenue fund of the Province of British Columbia derived from:

- Levies from oil and gas production,
- Fees related to applications for, and issuance of, approvals, licenses, permits and other authorizations issued by the Commission under the *Petroleum and Natural Gas Act*, and
- Annual fees prescribed under the *Petroleum and Natural Gas Act* and the *Pipeline Act*.

The Commission is exempt from federal and provincial income taxes.

2. Significant Accounting Policies

The consolidated financial statements of the Commission are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

Consolidation

The accounts of the Oil and Gas Commission and the Orphan Site Reclamation Fund have been consolidated in these financial statements. The Commission administers and controls the Orphan Fund and all inter company balances and transactions have been eliminated.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

• Furniture, equipment and tenant improvements	10 per cent
• Operating equipment	20 per cent
• Automotive equipment	25 per cent
• Computer hardware	33 per cent
• Computer software	100 per cent

One half of the amortization rate is applied to the year in which an asset is acquired.

Amortization associated with assets originally paid for by the Province of British Columbia (at the time when the Commission was created) is transferred from contributed surplus to revenue each year. See *Note 5*.

Revenue Recognition

All fee and levy revenue authorized and collected under Section 23 of the *Oil and Gas Commission Act* is first paid to the Minister of Finance. The Province then transfers this amount of revenue to the Commission in full.

Revenue is recognized when it is earned. The Oil and Gas Levy is assessed in the second month following production; therefore, revenue for February and March is estimated based on an analysis that takes into account both historical and current year trends. Fees under the *Pipeline Act* for pipelines are recognized when earned, that is, when "leave to open" has been granted.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Financial Instruments

The Commission's consolidated financial instruments consist of cash held in its bank account, accounts receivable, accounts payable, wages payable, due from and to the Province of British Columbia, and amounts due to First Nations. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risk arising from these financial instruments.

3. Due from / to the Province of British Columbia

	2007	2006
Due from:		
Fee and levies	**2,246**	1,946
Contract reimbursement	**45**	559
Salary reimbursement	**73**	-
Accrued leave liability	**-**	120
Signing bonus	**-**	488
	2,364	3,113
Due to:		
Operating expenses	**153**	3,011
Capital costs	**250**	-
	403	3,011

4. Property, Plant and Equipment

	Cost	Accumulated Amortization	**2007 Net book value**	2006 Net book value *(restated – Note 14)*
Furniture and tenant improvements	2,845	(1,515)	**1,330**	1,291
IT migration project	1,074	-	**1,074**	166
Computer hardware	906	(634)	**272**	221
Automotive equipment	368	(149)	**219**	297
Operating equipment	157	(57)	**100**	124
Computer software	563	(535)	**28**	21
Land	57	-	**57**	
	5,970	2,890	**3,080**	2,177

5. Contributed Assets and Forgiveness of Start-up Costs

During its first year of operation (fiscal 1998/99) the Commission borrowed funds from the Province to finance its purchase of start-up capital and pay for start-up professional contracts. The total of all of these amounts was $1.620 million.

During fiscal 2000/01 the Province forgave this amount and the amount equal to the capital assets. They were recognized as a contributed asset.

Contributed assets are amortized each year and the amount is transferred to revenue.

	2007	2006
Contributed assets beginning of year	**238**	333
Amortization of contributed assets	**(95)**	(95)
Contributed assets end of year	**143**	238

6. Commitments

The Commission occupies leased office buildings in Fort St. John, Fort Nelson, Victoria and Kamloops. The Commission pays building occupancy fees to the Accommodation and Real Estate Services of B.C. ("ARES", previously BC Buildings Corporation). The lease for the Fort St. John office space expires March 31, 2008 with no early release option. The Commission rents office space at two separate locations in Victoria. The lease for the first location expires April 30, 2010 with no early release option. The lease for the second location is managed through the Ministry of Energy, Mines & Petroleum Resources with no fixed end date, and requires six months notice to vacate. The lease for the space in Kamloops expires July 31, 2010.

The Commission will spend approximately $ 1 million per year on an IT Migration Project. This project is expected to be completed by fiscal 2009/10 and will see the retirement of legacy systems and the creation of a new service delivery model.

The Commission has entered into a number of short-term leases and support agreements. These are for vehicles and office equipment.

The Commission's total fiscal year commitments are:

Fiscal Year	Contracts	First Nations	Total
2007/08	3,157	855	4,012
2008/09	1,643	540	2,183
2009/10	323	540	863
2010/11	61	540	601
2011/12	41	270	311
2012/13	10	-	10
	$ 5,235	**$ 2,745**	**$ 7,980**

7. Science and Community Environmental Knowledge (SCEK) Fund

The Oil and Gas Commission administers this fund on behalf of the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC). Separate audited financial statements are available.

8. Orphan Site Reclamation Fund

The Oil and Gas Commission administers an Orphan Site Reclamation Fund. It was created on April 1, 2006 and is intended to pay for the reclamation of orphan sites and for related costs. There are 36 known wells in the province.

9. Employee Benefit Plans and Future Liability

Employee's Benefits Plan
The employees and employers of the public service contribute to the Public Service Pension Plan (the Plan), a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing plan members and employers is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The plan has 51,000 active plan members and 30,000 retired plan members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005 indicated an unfunded liability of $ 767 million for basic pension benefits. The next valuation will be as at March 31, 2008 with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Oil and Gas Commission paid $ 408,058 for employer contributions to the Plan in fiscal 2006/07.

Employee Future Post-retirement Benefits
The Commission annually accrues for future specific retirement benefits as provided for under the collective agreement and terms of employment. The future liability for this obligation is $ 284,346.

10. Contingent Liability

Litigation and Claims
The Commission is contingently liable with respect to pending litigation and claims in the normal course of business. An estimate of a contingent loss cannot be determined at this time. In the opinion of management, any liability that may arise would not have a material adverse effect on future income.

Orphan Sites
Management has estimated the contingent liability for orphan well reclamation to be approximately $ 3.1 million.

This calculation is based on 36 known orphan wells, with an average estimated reclamation liability of $ 150,000 per well. From this gross liability figure of $ 5.4 million, management has deducted $ 1.5 million approved by Treasury Board in fiscal year 2004/05 for reclamation spending by the Ministry of Energy, Mines and Petroleum Resources (MEMPR), and a further $ 800,000 in reclamation spending set aside by the MEMPR in fiscal year 2005/06, yielding a contingent liability to the Fund of $ 3.1 million. As the Fund currently has assets of just over $ 1 million, the unfunded liability for orphan wells is estimated to be $ 2.1 million. This unfunded portion will be retired as the Fund assets increase sufficiently over time due to revenues estimated to be $ 1 million annually.

Facilities and Pipelines
At this time, contingent liability arising from orphan facilities or pipelines can not be estimated. None have been identified.

Landowner Compensation
In addition to the $ 1.5 million allocated to MEMPR in fiscal year 2004/05 for reclamation spending, Treasury Board also approved MEMPR to spend up to $ 100,000 for land-owner compensation for unpaid surface rentals. Management estimates that this allocation is sufficient for known liabilities.

11. Revenues

The Oil and Gas Commission is funded through the collection of fees and a combination of levies on oil and gas production. The fees are collected and temporarily deposited into a revenue account where they are accessed by government for processing. For fiscal 2006/07, the Oil and Gas Commission Levy was set at $ 0.46 per one thousand cubic meter of gas produced and $ 0.92 per cubic meter of oil produced. The Orphan Site Reclamation Fund Tax was and is set at $ 0.03 per one thousand cubic meter of gas produced and $ 0.06 per cubic meter of oil produced.

Due to timing for Government invoicing and subsequent processing of the fees and levies, there is typically a four-month lag between realization of the revenue (income) and deposit into the general operating account of the Commission (cash position).

On May 1, 2007, as per Order in Council, the fee payable to the Oil and Gas Commission for well applications will increase by $ 400 per well (to $ 9100 for 1st drill and to $ 8,500 for 2nd drill) Levies will increase by $ 0.02 per cubic meter of oil produced (to $ 0.94) and by $ 0.01 per one thousand cubic meters of gas produced (to $ 0.47). From this increase, and in agreement with the Canadian Association of Petroleum Producers (CAPP), a budget for SCEK project expenditures has been reinstated for fiscal 2007/08.

12. Related Party Transactions

The Commission is related to all Province of British Columbia ministries, agencies and Crown corporations. The consolidated financial statements include the following related party transactions:

	2007	2006
Recoveries from the province		
Oil and Gas Regulatory Improvement Initiative (OGRII) Reimbursement	**400**	-
Contract reimbursement	**204**	878
Salary costs	**168**	179
Signing bonuses	-	488
	772	1,545
Expenses		
Building occupancy	**1,227**	1,200
Professional services and training	**349**	346
Telecommunications and info systems	**250**	256
Travel and vehicle costs	**215**	345
Office supplies and equipment	**110**	95
	2,151	2,242
Assets		
Tenant improvements	**291**	34
	291	34

The Commission leases office space from the Accommodation and Real Estate Services of B.C. ("ARES", previously BC Buildings Corporation). The Ministry of Attorney General acted as the Commission's primary legal advisor during the year on a cost recovery basis. The BC Public Service Agency provided human resource services during the year under terms of a Service Level Agreement (until September 2006, at which time the Commission was no longer subject to the Public Service Act). Common IT Services provides information technology services to the Commission. Queen's Printer provides publishing and other services to the Commission.

13. First Nations Payments

The Commission has entered into Agreements or Memorandums of Understanding with the following First Nations. During the life of the MOUs and Agreements each First Nation will receive payments based on current well activities. These payments are for consultation services on applications as required by the *Oil and Gas Commission Act*.

Payments to:	Agreements Expire	2007	2006
Blueberry River First Nations	March 31, 2020	**1,070**	1,355
Doig River First Nations	March 31, 2011	**1,070**	1,354
Dene Tha' First Nations	Sept 30, 2011	**450**	440
Fort Nelson First Nations	March 31, 2011	**1,070**	1,354
Halfway River First Nations	March 31, 2011	**1,070**	1,354
McLeod Lake Indian Band	December 31, 2007	**1,074**	1,112
Prophet River First Nations	March 31, 2011	**1,070**	1,355
Saulteau First Nations	March 31, 2011	**1,086**	1,354
West Moberly First Nations	March 31, 2011	**1,099**	1,355
Ktunaxa First Nation	March 31, 2008	**6**	60
Tahltan First Nation	-	**-**	15
		9,065	11,108

14. Comparative Figures

Certain of the comparative figures have been restated to conform to the presentations used in the current year.

Science and Community Environmental Knowledge Fund
Financial Statements

March 31, 2007

Science and Community Environmental Knowledge Fund

Statement of Management Responsibility

The financial statements of the Science and Community Environmental Knowledge Fund for the year ended March 31, 2007 have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements present fairly the financial position of the Fund as at March 31, 2007, and the results of its operations and changes in its financial position for the year then ended.

Management is responsible for the preparation of the financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that financial records provide reliable information for the preparation of financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the Science and Community Environmental Knowledge Fund. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Fund.

Ross Curtis
Commissioner

Executive Director, Business Services

DATE

May 25, 2007

Report of the Office of the Auditor General of British Columbia

To the Board of Directors of the Oil and Gas Commission

I have audited the statement of financial position of the *Science and Community Environmental Knowledge Fund* as at March 31, 2007 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Science and Community Environmental Knowledge Fund* as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 25, 2007

Errol Price, CA
Acting Auditor General

Science and Community Environmental Knowledge Fund
Statement of Financial Position
(in $000s)

March 31,	2007	2006
Assets		
Current Assets		
Cash	**1,326**	1,459
Accounts receivable	**4**	10
Prepaid expenses	**191**	286
	1,521	1,755
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**121**	36
Holdbacks	**17**	37
Due to the Commission (Note 3)	**41**	-
	179	73
Net Assets	**1,342**	1,682
	1,521	1,755

Commitments *(see Note 4)*

On behalf of the Science and Community Environmental Knowledge Fund

Ross Curtis
Commissioner

The accompanying notes are an integral part of these statements.

Science and Community Environmental Knowledge Fund
Statement of Operations and Net Assets
(in $000s)

March 31,	2007	2006
Revenues *(Note 5)*		
Interest	**48**	38
Expenses		
Project Costs	**268**	406
Salaries and benefits	**105**	-
Travel and vehicle costs	**11**	-
Professional services and training	**4**	154
	388	560
Net deficiency	**(340)**	(522)
Net Assets beginning of year	**1,682**	2,204
Net Assets end of year	**1,342**	1,682

The accompanying notes are an integral part of these statements.

Science and Community Environmental Knowledge Fund
Statement of Cash Flows
(in $000s)

March 31, 2007	2007	2006
Cash used in operating activities		
Cash generated from:		
Fees	-	3
Recovery from the Commission	14	-
Interest	48	37
	62	40
Cash used for:		
Research projects	102	425
Fund administration	93	140
	195	565
Cash (used in) from operating activities	(133)	(525)
Cash beginning of year	1,459	1,984
Cash end of year	1,326	1,459

The accompanying notes are an integral part of these statements

1. The Oil and Gas Commission as Agent and Administrator

In 1998, the Government of British Columbia entered into an agreement with the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC) to establish the Environment Fund ('the Fund'). The Fund was allocated $5 million over five years to support studies concerning practical ways of addressing environmental issues related to oil and gas exploration and development in British Columbia. Findings of completed studies are incorporated, where appropriate, into environmental practice and regulation.

In 2002 CAPP and SEPAC restated their support of the Fund for five years. At that time, they agreed to refocus and rename the Fund. The Fund changed from a purely 'research-based", "environment' fund to a broader based fund which incorporates 'science' and 'community environmental knowledge'. The Environment Fund was renamed the Science and Community Environmental Knowledge Fund ('SCEK Fund' or 'the Fund')

The Oil and Gas Commission agreed that the administration of the Fund would be part of its mandate. Funding is generated through a portion of the levy on oil and gas production and a portion of the application fee for wells. This money is restricted for use for projects and administration of the Fund. The objectives of the Fund are:

- To provide credible findings from scientific and knowledge based research that are useful to Commission and industry decision-making;
- To improve scientific and community environmental knowledge relevant to the management of oil and gas activities in British Columbia; and
- To communicate this information in a format suitable for Industry, Regulators, First Nations, Stakeholders and the General Public.

Prior to fiscal year 2003/04, the SCEK Fund financial information was included in the Oil and Gas Commission financial statements. The SCEK Fund financial statements are now reported separately to give more meaningful information to its stakeholders about the financial position of the SCEK Fund.

2. Significant Accounting Policies

The financial statements of the SCEK Fund are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

Prepaid Expenses

Funding which is paid in advance is accounted for as a prepaid expense. It is recognized as an expense upon completion of the agreement and or acceptance of the specified deliverables.

Project Fund Expenditures

Interim project expenses are recognized based on the terms of the agreement. In general, this occurs when interim deliverables are met. Final project expenses are recognized when the final statement of project expenditures and the final deliverables have been received.

Holdbacks

Holdbacks consist of a portion of a contractor's invoice value being held by the Fund until receipt and acceptance of the final report. The holdbacks are paid after review and approval of the report.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Financial Instruments

The SCEK Fund's financial instruments consist of cash held in its bank account, accounts receivable, accounts payable, holdbacks payable and due to the Province of British Columbia. Unless otherwise noted, it is management's opinion that the SCEK Fund is not exposed to significant interest, currency or credit risk arising from these financial instruments.

3. Due to the Commission

The Commission is related to all Province of British Columbia ministries, agencies and Crown Corporations. The amount due to the Commission represents salary costs owed to the Oil and Gas Commission (a related party) for employees who did work for the Fund during fiscal 2006/07.

4. Commitments

The SCEK Fund has entered into several long term agreements. Funds for these agreements are committed when the selection committee approves the project and the agreement is signed. The Fund's total fiscal year commitments are:

Fiscal Year	Amount
2008	643
2009	225
	868

5. Revenues

On April 28, 2004, an Order in Council eliminated the incremental oil and gas levies and well fees that the SCEK Fund collected.

On May 1, 2007, per an Order in Council, the fee payable to the Oil and Gas Commission for well applications will increase by $ 400 per well (to $ 9100 for 1st drill and to $ 8,500 for 2nd drill) Levies will increase by $ 0.02 per cubic meter of oil produced (to $ 0.94) and by $ 0.01 per one thousand cubic meters of gas produced (to $ 0.47). From this increase, and in agreement with the Canadian Association of Petroleum Producers (CAPP), a budget for SCEK project expenditures has been reinstated for fiscal 2007/08.

Due to timing for Government invoicing and subsequent processing of the fees and levies, there is typically a four-month lag between realization of the revenue (income) and deposit into the general operating account of the Commission (cash position).

6. Contributed Services

The Oil and Gas Commission contributes services to the Fund, consisting of accommodation and administrative services.

Corporate Governance

A three-member Board of Directors governs the Commission. The Deputy Minister of Energy, Mines and Petroleum Resources, Greg Reimer, is the Chair and reports to the Minister responsible, the Honourable Richard Neufeld. The Commissioner, Ross Curtis, is Vice Chair. John Bechtold, a government appointee, is the third Director.

A Governance Manual has been created and approved by the Board, and is available to view on the OGC website: http://www.ogc.gov.bc.ca/

The responsibilities of the Board include:

- Establishing the Commission's organization
- Providing strategic direction to the Commission
- Ensuring appropriate plans, programs, and policies are in place
- Approving the Commission's budget, service plan, and regulatory initiatives
- Regularly reviewing the Commission's performance to planned targets and budgets
- Approving the Governance Manual
- Reviewing the Commissioner's Performance Plan

The Chair has the following responsibilities:

- Scheduling and conducting Board meetings
- Signing approved Decision Notes
- Reporting to the Minister of Energy, Mines and Petroleum Resources on the activities of the Commission
- Ensuring alignment with appropriate government policies

The Vice Chair/Commissioner has the following responsibilities:

- Leading and managing the operations of the Commission
- Approving internal operating procedures at the division level
- Acting as the Chair in his/her absence
- Supervising and leading the Executive team of the Commission
- Responding to recommendations of the Advisory Committee
- Upholding the regulatory framework

The Commissioner is accountable for the operations and performance of the Commission.

The third Director is responsible to chair the Audit Committee and the Governance and Human Resources Committees.

The Board operates under a Carver™ -type governance model; it is strategic and advisory rather than operational. Duties and practices are identified in the Governance Manual referenced above.

There are two standing committee of the Board: the *Audit Committee* and the *Governance and Human Resources Committee* (GHRC).

The Audit Committee is comprised of the Board Chair, the third Director, and the Executive Director of Business Services. The Committee is responsible to:

- Ensure the adequacy of internal controls
- Ensure compliance with financial policies and procedures and Canadian Generally Accepted Accounting Principles (GAAP)
- Meet at least annually with the Commission's auditors, and to approve draft audit responses by management
- Select the Commission's auditors
- Ensure effective risk management practices are in place

Audit Committee Terms of Reference are included in the Governance Manual.

The Governance and Human Resources Committee (GHRC) provides direction on governance matters and sets the overall compensation strategy. It is composed of the board chair, the independent board member, and two ex-officio members, the Executive Director, Business Services Division and the Director of Human Resources. The Committee is responsible to:

- Review the Commissions governance policies and processes
- Approve all compensation strategy and plan proposals
- Approve all trade union negotiations strategy proposals
- Annually set the Commissioner's performance objectives
- Annually assess the performance of the Commissioner against the agreed objectives
- Approve the compensation of the Commissioner on an annual basis
- Approve the performance and compensation of the Commission's executive leadership team
- Ensure that the Commission has a sound plan in place for management succession.
- Ensure that the Commission maintains appropriate human resource and compensation policies.
- Approve any changes to the benefit plans provided to Commission employees.

The Commission's Executive Leadership Team is:

- Ross Curtis, Commissioner
- Alex Ferguson, Deputy Commissioner
- Jim Sproul, EFO & Executive Director, Business Services
- Steve Simons, Executive Director, Corporate and Government Relations
- Robert Munro, Director, Human Resources Branch
- Pat Smyth, Director, Office of Innovative Regulation

The Commission's Operations Leadership Team includes the Executive Leadership Team and:

- Ben Mitchell-Banks, Executive Director, Project Assessment and Compliance Assurance (PACA)
- John Dame, Front Counter BC & Application Review and Enforcement
- Lance Ollenberger, Area Director – North/Central West Region
- Roger St. Jean, Area Director – South Central East Region
- Rick Newlove, Area Director – Compliance and Enforcement
- Dave Krezanoski, Director, Operations Engineering
- Doug McKenzie, Director, Resource Conservation Branch
- Paul Jeakins, Executive Director, Technical Services and Regulatory Affairs (TSRA)
- Tom Ouellette, Strategic Director, Technical Services
- Paul Perkins, Area Director – Aboriginal Relations and Archaeology
- Ian Harper, SFO & Director, Business Services
- Larry London, Director, Information Technology and Systems Branch
- Brooke Hayes, Director, Corporate Compliance

Appendices

1a. Operations Division

The Operations Division is composed of three main branches:

- Project Assessment and Compliance Assurance Branch (PACA) which includes:
  - Front Counter BC
  - Application Review and Enforcement
  - North/Central West Region (Inspections)
  - South Central East Region (Inspections)
  - Compliance and Enforcement
- Engineering
  - Operations Engineering
  - Resource Conservation
- Technical Services & Regulatory Affairs Branch (TSRA) which includes:
  - Technical Services
  - Aboriginal Relations and Archaeology

The Project Assessment and Compliance Assurance Branch strives to ensure the province's petroleum resources are explored, developed, maintained, transported, and utilized in a safe, efficient and environmentally sound manner, consistent with statutory and permit requirements. The Branch also provides effective and efficient processes for the review of applications related to oil and gas activities (i.e. Geophysical, Wells, Pipelines, and Facilities), and approves applications that serve the public interest concerning environmental, economic, and social impacts. During the year the Aboriginal Relations and Land Use Branch was amalgamated into the Project Assessment Branch. The Project Assessment Branch now consults with First Nations communities about the oil and gas industry and its regulation; working with the Technical Services and Regulatory Affairs Branch in creating appropriate legislative and policy frameworks; and representing the interests of the oil and gas sector in land use and environmental planning processes undertaken by the province.

The Engineering Branch's purpose is to regulate the development and extraction of oil and gas. Responsibilities include public safety, environmental and fiduciary interests, rights of subsurface tenure holders, and resource information. This branch provides technical support to the other branches within the Operations Division. Its duties relate to management of the operational activities associated with developing and major pools within the provincial proven reserves. The Branch also renders decisions, and ensures compliance with these decisions on oil and gas development and conservation proposals. The goal is to optimize resource recovery and provincial revenues while protecting the rights of tenure holders. The branch also provides technical information to industry in support of development of the province's hydrocarbon resources.

The Technical Services and Regulatory Affairs Branch is responsible for providing policy, practices and technical services to the Operations Division of the OGC, providing strategic advice to the Executive, and providing leadership to a range of technical services functions including operational standards and best management initiatives; audits of corporate due diligence systems; regulatory reform; support to Treaty Negotiations and inter-government affairs; program development; internal quality control; strategic land use planning; corporate and special projects; and operational changes.

1b. Business Services Division

The Business Services Division is composed of three main branches::

- Business Services Branch including, strategic planning, financial management, and performance reporting.
- Information Technology and Systems Branch
- Corporate Compliance Branch

The mandate of the Business Services Branch is to fulfill responsibilities identified by statute in the *Oil and Gas Commission Act*, the *Financial Information Act*, the *Budget Transparency and Accountability Act*, the *Freedom of Information and Protection of Privacy Act*, and related Regulations and Directives.

The key responsibilities of the Business Services Branch are to:

- Develop and implement finance and administration policies and procedures
- Provide finance and administration advice and assistance
- Manage finance and administration processes
- Lead strategic planning exercises, prepare the Service Plan, monitor corporate performance, and prepare the Annual Service Plan Report
- Provide oversight and program development expertise to the SCEK Fund
- Provide spending oversight for the Orphan Fund
- Financial program development (i.e. Environmental Liability Management Program)

The Information Technology and Systems Branch is responsible for managing corporate IT hardware and software, end-user support, and the IT Migration Plan.

Corporate Compliance is responsible for corporate policy development, the Annual Service Plan, the Annual Business Plan, managing the Environmental Liability Management Program, and the development of the Enterprise Risk Management Strategy and oversight and performance reporting of mitigation strategies related to key risks.

Services related to these responsibilities noted above are delivered by Commission staff.

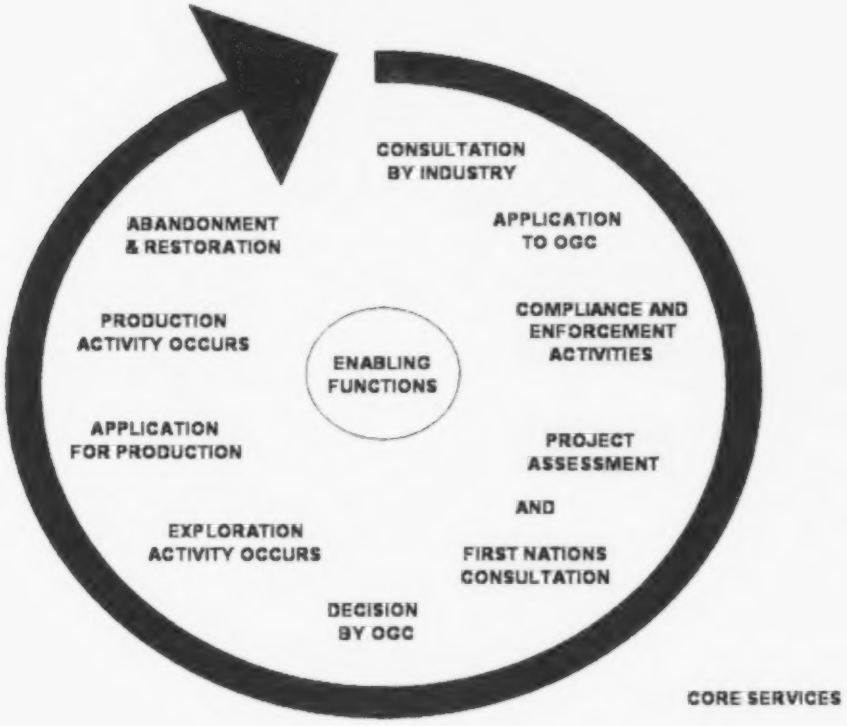
Contracted services provided by government entities are assessed annually by management. Contracted services provided by private firms are evaluated throughout the term.

Service delivery is provided and administered in a manner consistent with public sector values. Those values include probity, prudence, legality, economy, efficiency, and effectiveness.

1c. The Nine Step Application Process at the Oil and Gas Commission

Step	Action
1	Application, including consultation records, is submitted to the OGC
2	OGC reviews application for impacts affecting: • Stakeholders • First Nations • Archaeological interests • Environmental Issues • Technical information
3	Enhanced consultation may be required, including: • Public safety and emergency response planning • Record of community input • Assess commitments by applicant • Give comments from application review team
4	Decision on a well authorization includes: • Construction • Drilling • Site disturbance/removal of timber • Operational impact, such as odor
5	Well installation, pipelines and facilities and compliance control
6	Preparing for production: • Applicant must apply for production activities
7	Production commences: • Applicant must apply to test, produce, and/or flare.
8	Community consultation and notification on completion and production applications
9	Community liaison and issue management

1d. Service Delivery Model of the Oil and Gas Commission



2a. The Advisory Committee

The Advisory Committee is an independent body with the following responsibility to :

- Provide advice and make recommendations to the Commission
- Assess Requests for Reconsideration by Alternative Dispute Resolution
- Anticipate and identify environmental, economic and social issues
- Review the Commission's plans and financial statements
- Assist the Commission to develop operating plans

Member appointments are based on merit. Within the context of the required board skills, candidate selection consideration is also given to diversity of gender, cultural heritage, geographical representation, and knowledge of the communities served by the OGC.

Members are:

Mike Waberski (Chair)	Nov 2004 – Nov 2008
Shirley Viens (Vice Chair)	Nov 2004 – Nov 2008
Allan Blair	Nov 2004 – Nov 2008
Vera Nicholson	Nov 2006 – Nov 2010
Kathy Penney	Nov 2006 – Nov 2010
Wayne Dahlen	Nov 2006 – Nov 2010
Brad Caldwell	Nov 2006 – Nov 2010
Bradley Herald	Nov 2006 – Nov 2010

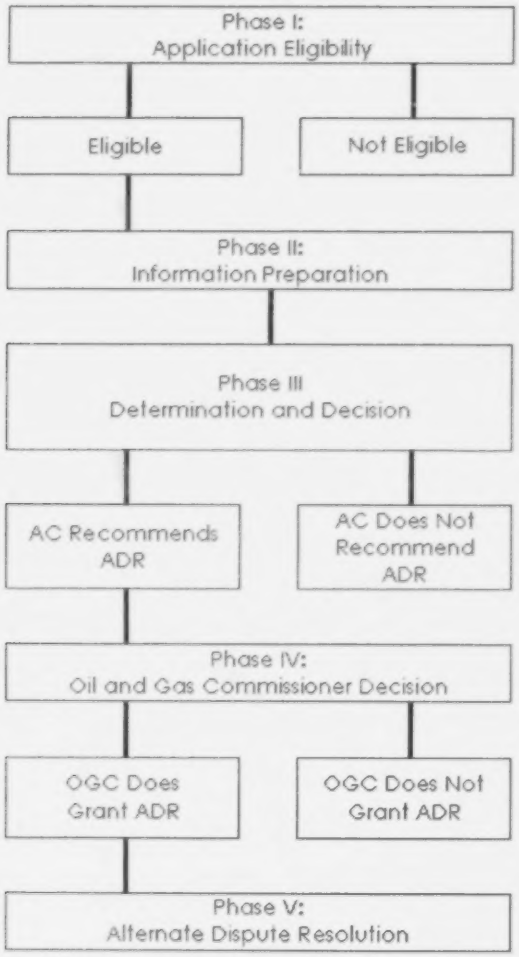
Ex officio members are:

Ross Curtis, Commissioner, Oil and Gas Commission
Paula Barrett, A/Executive Director, Oil and Gas Policy Branch, MEMPR

The Committee received 3 applications for reconsideration during the year, and zero (0) were recommended for reconsideration.

An Annual Report of the Committee will be made available through the Oil and Gas Commission's website after June 30, 2007:
http://www.ogc.gov.bc.ca/advisorycommittee.asp

2b. The Request for Reconsideration Process



3. Oil and Gas Practice Advisory Group

The Oil and Gas Practice Advisory Group (PAG) is a joint initiative between the Commission and the oil and gas industry. The group's purpose is to raise issues of mutual concern and work toward a resolution of those issues. The Commission is committed to implementing 80% of the recommendations made by PAG.

PAG is comprised of a Steering Committee and eight subcommittees, each with expertise in a particular operational area of the oil and gas industry. The Steering Committee is comprised predominantly of the leaders of the subcommittees. The Steering Committee examines the issues that are raised by the sub-committees. After an issue passes the scrutiny of the Steering Committee, it is passed on to the Commission for resolution.

The PAG subcommittees are:

- Community Relations, Archaeology, First Nations and Dispute Resolution
- Surface and Environment
- Seismic
- Well Drilling, Completions, Operations and Maintenance
- Pipeline Design and Construction
- Facilities Design and Construction
- Pipeline and Facilities Operations and Maintenance
- Pipeline and Equipment Systems Integrity

4. Best Practices Working Group

The Best Practices Working Group (BPWG) is composed of government, OGC, and industry members to address regulatory efficiency and service delivery issues in British Columbia related to petroleum and natural gas activities.

5. Public Sector Values

The Oil and Gas Commission delivers services in a manner consistent with public sector values.

The core values of government, as identified in the BC Government Strategic Plan, are:

- Integrity: to make decisions in a manner that is consistent, professional, fair, transparent, and balanced
- Fiscal responsibility: to implement affordable public policies
- Accountability: to enhance efficiency, effectiveness and the credibility of government
- Respect: to treat all citizens equitably, compassionately and respectfully
- Choice: afford citizens the opportunity to exercise self-determination

(Please refer to : http://www.bcbudget.gov.bc.ca/2006/stplan/).

The financial management objectives of government include ensuring that funds are controlled, accounted for and well managed by embracing these principles:

- Funds are handled properly and honestly
- Funds are spent responsibly and in accordance with statutory, regulatory and appropriation provisions, and not used for personal gain
- Funds are used economically and efficiently to deliver programs that effectively meet government's goals

(Please refer to http://www.fin.gov.bc.ca/ocg/fmb/manuals/CPM/01_Governance.htm).

The Standards of Conduct required of all employees is available to view at:
http://www.bcpublicservice.ca/policies/Directives/5-8/05-4soc.htm

6. Benchmarking

The Commission occupies a unique role with its single-window service to industry. Research confirms that no oil and gas regulatory agency in North America provides the range of services that the Commission provides.

The following table outlines the unique role of the Commission. The information was collected by an independent data analyst professional and has been verified with agency leaders during the fiscal year:

Responsibility	OGC	AEUB (Alta.)	SIR (Sask.)	WOGCC (Wyom.)	COGCC (Colo.)	Oklahoma	Montana
Lease mineral rights			x				
Adjudicate well drilling applications	X	x	x	x	x	x	x
Adjudicate pipeline applications	X	x	x				
Adjudicate facility applications	X	x	x				
Adjudicate geophysical applications	X		x	x	x	x	
Perform onsite technical inspections	X	x	x	x	x	x	x
Consult with First Nations	X					x	x
Mitigate environmental issues	X	x	x	x	x	x	x
Issue authority to occupy public land	X						
Issue authority to cut timber on area of occupation	X						
Issue authority to build and use roads	X						
Consult with stakeholders	X	x	x	x	x	x	x
Review archaeology assessment	X						
Mitigate heritage issues	X						
Waste management and clean up	X	x	x	x	x	x	x

Only a few regulatory agencies throughout North America provide performance measures and targets. For example, the Wyoming Oil and Gas Conservation Commission lists no performance measures. However, where an agency has a measure and it is reasonably comparable, it will be shown as a benchmark.

The Commission is partnering with the Alberta Energy and Utilities Board (AEUB) and select American agencies to collect and compare operational, financial and administrative information. The goal is to establish performance measures and identify benchmarks that could be useful to regulatory agencies throughout North America.

7. Continuum of Dispute Resolution at the OGC

The OGC has a duty to resolve oil and gas development issues and disputes between affected parties, such as industry, stakeholders or First Nations. The goal of dispute resolution is to explore and understand each other's interests and to develop acceptable solutions together. The Commission works collaboratively with industry, First Nations and stakeholders to resolve a broad range of issues.

Concern/Issue	Action
Absence of Information	**Information Sharing:** -Information brochures, publications, fact sheets, and information letters. -Sharing information at trade shows, workshops, community meetings. -Providing information in response to information requests.
Stakeholder Concerns	**Issue Resolution:** -The Project Assessment Branch works with First Nations, stakeholders and industry to mitigate issues during the application review process. - The OGC has added an Appropriate Dispute Resolution (ADR) Manager position to assist in facilitating processes that enable positive outcomes. -The OGC works with First Nations, stakeholders and industry to resolve operational issues arising after an application has been approved.
First Nations Concerns	**Protection and Mitigation:** -Facilitated meetings between First Nations and industry. -OGC confers with Chief and Council, Land Use staff, Elders and Monitors. -Imposes terms and conditions on approvals and provides final permits. -Compliance monitoring and enforcement.
Community Concerns	**Community Engagement**: -The OGC documents concerns and shares information with communities. -Broad-based community involvement across British Columbia. -Enhanced compliance and enforcement. -Actions tailored to meet specifics of activity and concerns (workshops, presentations, bulletins, etc.).
Proponent/Surface Dispute	**Facilitation:** -Facilitation occurs at all levels of the OGC on issues dealing with land, health, safety, wildlife, water, rehabilitation and industry performance.
Landowners/Proponent Disputes	**Mediation and Arbitration Board:** -The OGC provides information relevant to applications made to the Board, and shares information with landowners. -The OGC's Landowner Liaison Inspector works with landowners to provide information and address concerns.
Conflicting Tenures	**Interagency Task Group:** -Pre-tenure planning for oil and gas operations. -Sustainable Resource Management plans.
Oil and Gas Production Disputes	**Reservoir Engineering Studies and Decisions:** -Limits on daily production. -Off target penalties. -Pool conservation and evaluation.
Unresolved Dispute of OGC Approved Activities	**Request for Reconsideration:** -Disputant may apply to the Advisory Committee for reconsideration of the OGC activities decision. -If the Advisory Committee grants the application, it makes a recommendation to the OGC. -If the OGC grants the recommendation, it authorizes a facilitated resolution of the dispute. -The OGC reconsiders its original decision.

8. Science and Community Environmental Knowledge Fund

The Science and Community Environmental Knowledge Fund (SCEK Fund) was established in 1998 by the Canadian Association of Petroleum Producers (CAPP) and Small Explorers and Producers Association of Canada (SEPAC) to support and facilitate research concerning practical ways of addressing environmental issues related to oil and gas exploration and development in British Columbia.

The objectives of the Fund are to:

1. Deliver credible findings from scientific and knowledge-based research,
2. Improve scientific and community environmental knowledge relevant to the management of oil and gas activities in BC,
3. Communicate findings to industry, regulators, First Nations, land and resource users, and public.

Much of the SCEK Fund activity in 2006/07 focused on the development of structures and processes that would achieve the three Fund objectives and improve the transparency and efficiency of Fund management.

1. Strategic Planning

   - Establishment of an iterative planning framework to increase the involvement of users in establishing priority topics for funding, with the intent of making the Fund more responsive to the key challenges facing the oil and gas industry.
   - Definition of a strategic framework (vision, goals) for the SCEK Fund.
   - Review and renaming of Fund envelopes, classification of existing projects to envelopes, and identification of research gaps under each envelope.

2. Communications

   - Preparation of a communications and extension strategy, development of a SCEK logo and presentation templates, redesign and expansion of the SCEK portion of the OGC website.

3. Program Development

   Development of guidelines and templates to support:

   - Governance (Steering Committee Terms of Reference, Subject Matter Expert Terms of Reference, conflict of interest protocols).
   - Project selection (Call for Proposals process, Letter of Intent guidelines, full proposal guidelines).
   - Contract management (recipient agreement template, project cost guidelines, project deliverables guidelines, invoice guidelines).
   - Program administration (project implementation and payment process, expense forms, request for payment forms).

Further information on the SCEK Fund is available at
http://www.ogc.gov.bc.ca/scek/index.asp

9. Orphan Sites Reclamation Fund

History

In fiscal year 2004/05, Treasury Board approved $1.5 million to the Ministry of Energy, Mines and Petroleum Resources (MEMPR) base budget for the clean up of 12 identified orphan wells. A further $800K was approved in FY06. In addition, EMPR received an allocation of $100,000 to fund land owner compensation for unpaid surface lease rentals. The allocation for this purpose is sufficient. Of the money that EMPR received, approximately $800K remains to be spent.

Orphan Fund

On April 1, 2006, legislation for a newly created Orphan Site Reclamation Fund was brought into force with an amendment to the *Oil and Gas Commission Act* and an amendment to the *Oil and Gas Commission Levy Regulation*. The Orphan Fund is administered by the Commission, and is intended to pay for the reclamation of orphan sites and for related costs. There are 36 known orphan wells in the province.

The Orphan Site Reclamation Fund collects a tax from oil and gas producers. The tax rates are reviewed once a year. The rates for this year are 3 cents per one thousand cubic meter of gas produced and 6 cents per cubic meter of oil produced. This rates are not expected to change in fiscal 2007/08. The total revenue to the fund varies with production levels but is expected to be approximately $1 million per year.

Management has estimated the contingent liability for orphan well reclamation to be approximately $3.1 million.

This calculation is based on 36 known orphan wells, with an average estimated reclamation liability of $150,000 per well. From this gross liability figure of $5.4 million, management has deducted $1.5 million approved by Treasury Board in fiscal year 2004/05 for reclamation spending by EMPR, and a further $800,000 in reclamation spending set aside by the MEMPR in fiscal year 2005/06, yielding a contingent liability to the Fund of $3.1 million. As the Fund currently has assets of just over $1 million, the unfunded liability for orphan wells is estimated to be $2.1 million. This unfunded portion will be retired as the Fund assets increase sufficiently over time due to revenues (estimated to be $1 million annually).

At this time, contingent liability arising from orphan facilities or pipelines cannot be estimated. None have been identified.

10. First Nations Payments

First Nations Payments
As at Mar 31/07

	FY 98/99	FY 99/00	FY 00/01	FY 01/02	FY02/03
Halfway River	355,450.30	614,878.73	786,787.23	1,115,355.67	932,932.40
Prophet River	355,450.30	614,878.73	786,787.23	1,074,857.10	957,492.64
West Moberly	336,079.75	614,878.73	786,787.23	1,074,857.10	957,492.64
Fort Nelson	324,457.42	614,878.73	127,793.54	1,118,286.66	1,224,048.88
Blueberry River	355,450.30	614,878.73	786,787.23	1,074,857.10	957,492.64
Saulteau	0.00	970,329.03	127,793.54	1,072,786.66	1,218,948.86
Doig River	0.00	970,329.03	127,793.54	1,094,286.66	1,218,948.88
Dene Tha	0.00	0.00	711,100.00	0.00	0.00
McLeod Lake	0.00	0.00	0.00	0.00	359,000.00
Ktunaxa/Kinbasket	0.00	0.00	0.00	0.00	0.00
Tahltan	0.00	0.00	0.00	0.00	0.00
Total	**$1,726,888.07**	**$5,015,051.71**	**$4,241,629.54**	**$7,625,286.95**	**$7,826,356.96**

First Nations Payments
As at Mar 31/07

	FY03/04	FY04/05	FY05/06	FY06/07	TOTALS
Halfway River	1,260,574.30	1,187,200.00	1,354,500.00	1,070,000.00	8,677,678.63
Prophet River	1,278,994.48	1,187,200.00	1,354,500.00	1,070,000.00	8,680,160.48
West Moberly	1,278,994.48	1,187,200.00	1,354,500.00	1,099,000.00	8,689,789.93
Fort Nelson	1,571,286.66	1,277,200.00	1,354,500.00	1,070,000.00	8,682,451.89
Blueberry River	1,278,994.48	1,187,200.00	1,354,500.00	1,070,000.00	8,680,160.48
Saulteau	1,475,086.66	1,187,200.00	1,354,500.00	1,086,000.00	8,492,644.77
Doig River	1,475,086.66	1,264,300.00	1,354,500.00	1,070,000.00	8,575,244.77
Dene Tha	320,000.00	440,000.00	440,000.00	450,000.00	2,361,100.00
McLeod Lake	699,000.00	901,500.00	1,111,500.00	1,074,000.00	4,145,000.00
Ktunaxa/Kinbasket	0.00	0.00	60,000.00	6,000.00	66,000.00
Tahltan	0.00	0.00	15,000.00	0.00	15,000.00
Total	**$10,638,017.72**	**$9,819,000.00**	**$11,108,000.00**	**$9,065,000.00**	**$67,065,230.95**

Contact Information

For general information about the Oil and Gas Commission, you can contact us by:

Phone	(250) 261-5700
Mail	200, 10003 – 110 Avenue Fort St. John, B.C. V1J 6M7
Fax	(250) 261-5728

Please visit our website at www.ogc.gov.bc.ca

For more information regarding this Annual Service Plan Report, please contact Ian Harper, SFO & Director, Business Services, at (250) 356-2691.